REVIEW OF THE OPERATION AND FUTURE STATUS OF THE AIRPORT AND AIRWAY TRUST FUND

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

AUGUST 11, 1988

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REVIEW OF THE OPERATION AND FUTURE STATUS OF THE AIRPORT AND AIRWAY TRUST FUND

THURSDAY, AUGUST 11, 1988

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:38 a.m., in room 1100, Longworth House Office Building, Hon. J.J. Pickle (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
TUESDAY, JULY 19, 1988

PRESS RELEASE #24
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1105 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D. C. 20515
TELEPHONE: (202) 225-5522

THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN,
SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS,
U. S. HOUSE OF REPRESENTATIVES,
ANNOUNCES A HEARING TO REVIEW THE OPERATION AND FUTURE STATUS OF
THE AIRPORT AND AIRWAY TRUST FUND

The Honorable J. J. Pickle (D., Texas), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will conduct a hearing to review the operation and future status of the Airport and Airway Trust Fund.

The hearing is scheduled for Tuesday, August 2, 1988, beginning at 9:30 a.m., in the main Committee hearing room, 1100 Longworth House Office Building. The Subcommittee will receive testimony from the Federal Aviation Administration (FAA) and invited representatives of the aviation industry.

The hearing will review whether the aviation excise-tax revenues deposited in the Airport and Airway Trust Fund are being properly and adequately directed toward current and anticipated aviation problems. Accordingly, the Subcommittee will examine airport and airway program expenditures: (1) to increase airport capacity; (2) to improve airport safety; to abate aircraft noise levels; and, (3) to modernize airport equipment, including the air traffic control system.

This review will be conducted in light of the automatic aviation-tax reduction trigger which was included in the Airport and Airway Safety and Capacity Expansion Act of 1987 (P.L. 100-223). The Act provides for an automatic 50-percent reduction in air-passenger ticket, cargo and fuel taxes for 1990, if Trust Fund appropriations for airport improvements, airway facilities and equipment, and research, engineering and development for Fiscal Years 1988 and 1989 total less than 85 percent of the authorized levels for those two years.

In announcing these hearings, Chairman Pickle stated: "Last year the Congress, at the recommendation of the Committee on Ways and Means, extended for three years the passenger-ticket tax, the freight tax, the international-departure tax, and the aviation-fuels tax which are deposited in the Airport and Airway Trust Fund. At the same time, we included an automatic tax reduction trigger, recognizing that it is unfair to continue the current tax on airway-system users if the $6 billion Trust Fund balance is not being utilized for necessary airport and airspace improvements.

"Americans are frustrated with our air transportation system and rightfully expect improvements. We simply cannot continue with business as usual for strictly budgetary purposes. We have neglected our airports for long enough. Safety must be our primary goal. The message from the Committee on Ways and Means is clear, we want these dedicated taxes used for their intended purpose -- to ensure a first-class aviation system. As the Congress deliberates the Fiscal Year 1989 FAA appropriation, it is timely that the Subcommittee review this important area."

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Persons wishing to submit written comments for the printed record of the hearing should submit six (6) copies by the close of business, Friday, August 26, 1988, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515.

(more)

SEE FORMATTING REQUIREMENTS BELOW:

COMMITTEE ON WAYS AND MEANS FORMATTING REQUIREMENTS FOR PRINTING OF HEARING STATEMENTS, WRITTEN COMMENTS AND EXHIBITS

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will **not** be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

Chairman PICKLE. We will ask the subcommittee to please come to order. We will ask our guests if they will please take their seats. We want to proceed. We have several important witnesses this morning, and I look forward to this hearing, as I'm sure members of the committee and those involved do.

I'm going to make a preliminary statement and then we'll ask Mr. Schulze if he wants to make a comment before we get underway. We'll then recognize you, Mr. Anderson, just as soon as we make these first speeches.

Today the Subcommittee on Oversight will review the operation and future status of the Airport and Airway Trust Fund. We will not sit idly by and watch the surplus of the trust fund grow while taxpaying aviation users are bearing the risk of unattended safety and capacity needs. The last time the subcommittee reviewed the operation of the trust fund was in 1980. Since that time, the trust fund surplus has increased by $2.5 billion. At the end of this year the trust fund surplus will reach close to $6 billion. Now, some may question whether that is real or not, but figures are there that show it will reach approximately that sum. Yet, three-fourths of the $4.6 billion in airport improvement projects currently awaiting funding will not receive Federal funding this year.

Last year the Committee on Ways and Means recommended the extension of aviation taxes for 3 years. This included the 8 percent passenger ticket tax, the 5 percent freight tax, the $3 international departure tax, and the 12 and 14 cents per gallon fuel tax. The committee further provided that certain taxes be automatically be reduced in 1990 if the Congress did not appropriate 85 percent of the authorized spending levels for certain trust fund programs in 1988 and 1989.

The fiscal year 1988 FAA appropriation spent only 77 percent of the authorized levels. The fiscal year 1989 appropriation, as passed by the House, spends only 81 percent. Therefore, it appears that the aviation tax reduction trigger will go into effect in 1990. We will be reducing the surplus in the trust fund by decreasing tax revenues rather than increasing spending to address the emerging safety and capacity crisis in our skies and our airports.

The purpose of the tax trigger was not to reduce taxes but to assure that the tax revenues would be spent for needed improvements to our airports and airways. We are frustrated with everybody pointing the finger at everybody else. The administration says that Congress isn't appropriating the money, and the Congress says the administration is not requesting the money or is limited by budget constraints. The administration says the surplus is a result of low funding for FAA operations. The Congress says if more money was spent for airport improvements and facilities and equipment more money would be available to fund operations. It's like a dog chasing its tail, or shall I say a bird chasing its tail.

Most Americans are distrustful of our air transportation system and rightfully expect improvement. We simply cannot continue to use the trust fund in order to meet deficit targets while neglecting our airports and the air traffic control system. The message from the Committee on Ways and Means is clear: we want these dedicated taxes used for their intended purpose—to ensure a first-class aviation system. And I might say that we all agree on that, but

that seems to be about the only procedural thing that we do agree on. As Congress deliberates the fiscal year 1989 FAA appropriation, it is timely that the subcommittee review this important area.

Today we will hear from the Department of Transportation, the Federal Aviation Administration, and other invited witnesses. We want to know whether there is a need; whether the system is being clogged and operated overcapacity; whether more trust fund moneys should be spent; whether Department of Transportation and the FAA are keeping abreast of airport and airways needs; and what the overall impact of trust fund spending and tax policies will be on the health and future of our aviation system. I am not trying to criticize either the Congress or the administration or any one particular group, but something needs to be done to unsnarl this riddle.

Today I hope we can establish some basic facts to see what the answer might be on that.

Now I will recognize Mr. Schulze.

Mr. SCHULZE. Thank you, Mr. Chairman.

I join you in opening today's hearing on the Airport and Airway Trust Fund. The Airport and Airway Trust Fund serves several functions.

First, it provides a stable source of funds to pay for capital improvements for our airports. This is an on-going activity. We need to upgrade our airports to meet the transportation demands of a growing economy.

Second, the trust fund embodies the user fee principle. This means that the persons who use the airport and airway transportation system should bear some direct responsibility for financing the system. This approach is a fair one.

While there may be broad agreement on the general principle of the trust fund approach, the actual implementation of the Airport and Airway Trust Fund has been more problematic. Unfortunately, the history of the trust fund operation shows how budgetary considerations and inter-committee rivalry can affect a program.

Last year the Congress passed a law which called for a 50-percent reduction in most airway-related excise taxes in 1990 if the fiscal year 1988 and 1989 appropriation levels for the capital programs did not total at least 85 percent of the authorization level. This is referred to as the aviation tax reduction trigger. Based on current appropriation levels, it appears that the tax reduction trigger will be pulled in 1990.

The tax reduction trigger was enacted because there was a belief that the aviation taxes were too high in comparison to the amounts appropriated from the trust fund. The logic was that if the appropriated levels are chronically below the level of aviation tax receipts then the taxes are too high and they should be reduced.

The logic of this approach is complicated somewhat by the existence of what is called the penalty provision enacted in 1982. The penalty provision generally results in a $2.50 reduction in the airport operating expenses which come out of the trust fund for every $1 by which the appropriations for a capital project fall below the authorized level.

The contention is that the penalty provision operates to reduce the amounts drawn out of the trust fund and increase the amount

charged to general tax receipts. This makes the trust fund surplus higher than it otherwise would be. The level of airport expenditures is maintained, but there is more money coming from general revenues and less from the trust fund.

As a politician and a student of institutional dynamics I can appreciate the evolution of the penalty provision and tax reduction trigger; yet, no one should be proud of the current arrangement.

The well-being of our aviation transportation system is far too important to be held hostage to budgetary and institutional rivalries. Our aviation system needs a reasonable source of stable, long-term funding. The Airport and Airway Trust Fund should be available to address this need without extraneous pressures and fluctuations.

Today we will review the operation of the Airport and Airway Trust Fund. The Federal Aviation Administration will testify about the current and future programs supported by the fund. Perhaps even more importantly we will hear from the persons who pay the aviation taxes and look to the trust fund to support the important airport projects. We should review several aspects.

First, what are the actual programmatic needs which the trust fund should support?

Second, what effect will the tax reduction trigger have on the ability of the trust fund to support the needed programs?

Mr. Chairman, I look forward to hearing today's witnesses.

Chairman PICKLE. Thank you, Mr. Schulze.

Our first panel this morning consists of Glenn Anderson, our distinguished colleague from California who is the chairman of the Committee on Public Works and Transportation. We were scheduled to have the testimony from Norman Mineta, chairman of the Subcommittee on Aviation of the Committee on Public Works and Transportation, but Mr. Mineta became ill this morning and had to go home. We, therefore, regret the fact that we will not have his testimony, but Mr. Anderson, I think, is going to ask that that be included.

We, therefore, are pleased to recognize first Congressman Anderson.

STATEMENT OF HON. GLENN M. ANDERSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA AND CHAIRMAN, COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

Mr. ANDERSON. Thank you, Mr. Chairman and members of the committee. I want to thank you very much for the opportunity to testify on the Airport and Airway Trust Fund. Your proceedings are timely, and you and your fellow subcommittee members are to be applauded for holding these hearings.

I was listening to your remarks and I thought that both of your remarks were very good, particularly when you referred to that $6 billion sitting in that trust fund that we can't spend. Tomorrow night I'll be flying to Los Angeles, and almost every time that I fly I'm told about another "near-miss" or another "near thing" that happened. And, of course, 2 years ago there was a crash in my district in the city of Ceritos. I believe 12 people were killed on the ground, and over 100 people were killed in the air. We know we

have needs, and yet, somehow, we can't spend what we need to meet these problems.

Now, last December the Airport and Airway Safety and Capacity Expansion Act was enacted into law. In passing this legislation our two committees worked together to develop programs to meet our Nation's aviation needs and establish a revenue stream to support those programs.

I would like to take this opportunity to review what was guiding us in that legislation and what we were seeking to accomplish.

First, our legislation reauthorized the airport improvement program. The recently enacted authorization provides $1.7 billion per year for the fiscal years 1988 to 1990 and $1.8 billion per year for 1991 and 1992. This represents a significant increase in the Federal Government's commitment to meeting the Nation's airport safety and capacity needs. In fiscal year 1987, the last year of the previous authorization, funding for this program was authorized at only $1 billion. In the reauthorizing legislation the emphasis in our approach was to provide enough funds so that the serious airport capacity and congestion problems having a national impact could be addressed.

The need for a 70-percent increase for this program has been thoroughly documented by the Federal Aviation Administration and the aviation users. In fact, the program we authorized was actually a minimum level compared to needs. Unfortunately, the appropriations legislation enacted an obligation ceiling for fiscal year 1988 which will not permit all authorized funds to be committed. A similar limitation is likely to be imposed for fiscal year 1989. These ceilings mean that our ability to address airport capacity problems will be hindered. Because of the funding below the authorized level, development needs will go unmet.

The trust fund also finances the purchase of all of the FAA's air traffic control, communications, navigation facilities, and equipment. In the recently enacted authorizing legislation, significant increases in funding were authorized. This account was authorized for three fiscal years at levels ranging between $1.4 and $2.1 billion.

As you are aware, the FAA is in the midst of a total modernization and replacement of all the FAA facilities and equipment. This modernization is absolutely necessary if present and future traffic demand is to be accommodated, and if safety is to be maintained at the highest levels possible. Here, too the appropriations legislation has limited funding below the authorized levels for fiscal year 1988 and fiscal year 1989. This will mean that less of the planned modernization will be accomplished and that the safety and capacity benefits from that modernization will be delayed.

The Committee on Science, Space, and Technology developed the research, engineering, and development authorization for the FAA. Again, the new authorization called for increased Federal commitment to meet the needs in this area. A 3-year authorization was established for fiscal years 1988 through 1990 beginning at $201 million and climbing to $222 million. Again, as a result of appropriations legislation action, the funding in fiscal year 1988 is only $153 million, and in fiscal year 1989 funding will be only $160 mil-

lion, a very significant shortfall below our Nation's aeronautical research needs.

Our authorization also provided for increased funding from the trust fund for the FAA's operating expenses. This bill provides that more than half of the operating expenses of the FAA can come from the trust fund. The authorized funding for FAA operations was significantly increased over prior years.

I must note that the authorizing legislation continues a very important concept that has existed since the trust fund was established, and that is that the trust fund and its dedicated user taxes are first and foremost to be devoted to meeting the extraordinary capital development needs of our aviation system. The legislation provides that if funding for capital development falls short of the authorized levels, those funds will be retained for the primary purpose of capital development. We hope that in the future more enlightened budget policies will enable us to use these retained funds to address our Nation's aviation capital development needs.

Finally, I want to note one of the more important provisions of the reauthorization legislation which was developed by the Committee on Ways and Means and supported by the Committee on Public Works and Transportation. Your committee established a tax trigger whereby the user taxes will go down by 50 percent if there is a significant shortfall between the annual appropriations and the authorized levels. It appears the we are headed for that tax reduction given the 1988 funding and the anticipated funding for 1989.

I believe the preference of all of us is for the programs to be funded at their authorized levels and for taxes not to be reduced. However, if our process fails to provide for spending the funds collected from aviation users, simple fairness dictates that we do not continue to collect these taxes. So the Committee on Ways and Means is to be commended for this approach to user-fee-funded trust fund programs. The tax trigger does not solve our aviation problems, but it is a fairer way to deal with the American taxpayer.

In December, just 9 months ago, the Congress enacted funding levels that would have gone a long way toward meeting our country's aviation needs. But already, just as has been the case for the past several years, the budget and appropriation processes are not permitting those funds to be spent at the necessary levels. We are likely to see fiscal year 1989 appropriations levels that will not do nearly as much for our aviation system as the authorization we approved just a few months ago anticipated.

I know that the concept of taking trust funds off-budget is not supported by all members of the Ways and Means Committee, but we must be realistic, given the needs in aviation that everyone agrees are there. A different budget arrangement is required. We cannot continue to collect these taxes from aviation system users and then short-change the aviation system by not spending it. Without changes, the country will be unable to meet the safety and capacity demands that have been created by this rapidly growing system. The result will be congestion, delay, inefficiency, increasing costs to both government and the user, and, most importantly, a deterioration in safety.

Mr. Chairman, thank you for holding these hearings and inviting me to testify. The subcommittee's interest in these important transportation matters is very much appreciated.

In reference to Chairman Norman Mineta, I would like to submit a copy of his statement. He is ill and cannot be here, but I do have a copy that should be made a matter of record.

Chairman PICKLE. The statement of Mr. Mineta will be included in the record in its entirety.

[The prepared statement of Mr. Mineta follows:]

STATEMENT OF HONORABLE NORMAN Y. MINETA
CHAIRMAN, SUBCOMMITTEE ON AVIATION
COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
AUGUST 11, 1988

Mr. Chairman, I appreciate the opportunity to present testimony before your Subcommittee regarding the operation and future status of the Airport and Airway Trust Fund.

As your Subcommittee knows, the country's aviation infrastructure needs are substantial. If these needs are not adequately addressed, not only will the safety and convenience of the traveling public be jeopardized, but in addition the economy of this nation will not perform as well as it could or should. Airports and aviation have become crucial linchpins for local and national economic development. Without an adequate infrastructure, we are going to see that development frustrated.

What I would like to do today is review a little bit of the Federal government's recent history with respect to aviation. The past several years have been a mixed bag in terms of aviation funding.

First, there have been some significant increases in funding for airports, the air traffic control system, and FAA's operations. Federal funding for airports has roughly doubled during the 1980s, while funding for FAA's air traffic control facilities and equipment has increased approximately fivefold. FAA's operations budget was $2.3 billion in 1981, and it will be $3.4 billion next year.

Although this sounds pretty good, we need to look at these numbers in the context of what the Congress authorized and what is needed. In short, despite these funding increases, we are still far behind where we should be. Because of shortfalls between actual funding levels and what the Congress authorized, we will be playing catch-up for some time to come.

Unfortunately, funding shortfalls are not just as a historical problem. They continue today. Eight months ago, the Airport and Airway Safety and Capacity Enhancement Act was signed into law. The authorization for the airport grant program was established at $1.7 billion for the current fiscal year and the two subsequent years. This amount is 70% higher than the 1987 level of just over $1 billion. However, the FY 1988 Continuing Resolution limited this program to $1.27 billion, $431 million below the authorized level.

With respect to FY 1989, the Administration's request was only $1.2 billion. It appears that the Appropriations Committees are going to permit between $1.3 and $1.5 billion to be obligated, still leaving us well behind the needs curve.

The Facilities and Equipment account has been in a similar predicament. Historically, the funding shortfall in F&E spending can be attributed to a number of causes, including overly optimistic procurement schedules, contractors not performing as expected, and poor management and planning by the Department of Transportation and the Federal Aviation Administration. But we must also be honest and include Administration and Congressional budget policies

on the list of reasons for the underfunding of modernization of the air traffic control system.

In FY 1988, this funding shortfall will be $269 million below the authorized level; and in FY 1989, we will end up with between $244 and $447 million less than the authorization, depending upon which version of the appropriations bill one looks at.

As you know, Mr. Chairman, the Committee on Public Works and Transportation, after years of fighting these budget and appropriations battles, has concluded that the aviation capital development programs are unwitting victims of the process and the broader budget deficit problems facing this country. Our Committee strongly believes that the 100% user-supported Aviation Trust Fund should be taken out of the unified budget so that these programs which do not contribute to the deficit, can be considered in their own right.

Under our current budget and appropriations arrangements, the aviation programs are put in competition with the other necessary and worthwhile transportation programs funded from general revenues because all transportation programs must fit under an overall transportation budget cap. As a result, over $1 billion is being collected each year from aviation system users and is not being spent for airway and airway improvements. There are now nearly $6 billion in collected, but unspent, user fees sitting idly in the Aviation Trust Fund.

In the reauthorization legislation, your Committee took a major step to restore a sense of fairness to the concept of collecting user fees in a trust fund to finance capital developments. The Ways and Means Committee accomplished this by establishing that user taxes would be cut in half if there were significant shortfalls below the authorized level in appropriations. Though this provides a greater degree of fairness to those who pay the taxes, we must recognize that the capital development needs of our aviation system will continue to grow. What we really need is a mechanism that ensures that the user taxes are truly dedicated, that the revenues collected are spent for their intended purposes.

Finally, I would like to provide some rebuttal to a couple of points you may hear from the Department of Transportation's witness, Ms. Hale. First, the Department often states that it is the Congress, not the Administration, that is responsible for funding shortfalls in aviation. This statement must be looked at in the context of the Administration's overall transportation program.

Yes, it is correct that annual appropriations for Facilities and Equipment and FAA operations sometimes end up being below Administration requests. This result is the inevitable outcome when the Administration's proposed budget has called for decimating funding for other transportation modes, such as mass transit, highways, and the Coast Guard.

With respect to the Airport Improvement Program, the Administration has never been a strong supporter of adequate funding. In the early years of the Reagan Presidency, the Administration wanted to actually kick the larger airports out of the program and end federal assistance to our strained hub airports. Congress rejected that idea; but since that time, the Administration has consistently pressed for funding far below the authorized levels.

Second, you may hear that the Trust Fund should support more of the FAA's operational costs and that the so-called O&M penalty provisions should be eliminated. Again, the argument must be examined in context.

The Department's argument is that since it is the users that benefit directly from the operation of the FAA, then it should be the users who pay for that agency's operations. The new authorization act provides that slightly over half of the FAA's operating expenses may come from the Trust Fund if, and this is the big "if", the capital programs are fully funded. When the capital programs are not fully funded, substantially less money will be made available from the Trust Fund for FAA operations. The funds which cannot be spent for operations will be reserved for capital development.

This penalty provision is very important because it ensures that the funds will be there to undertake capital development in the future. Congress' position has always been that this Trust Fund is, first and foremost, a capital development fund, and secondarily, a means to lessen the general fund's responsibility to provide for the basic operations of the FAA.

We must recognize that a well-developed and safe airport and airway system has many beneficiaries beyond those who are actually flying on or piloting airplanes. The entire American public benefits substantially from aviation, whether they use air travel or not. Hence, we should expect the general taxpayer to join in supporting these programs.

To advocate that the users bear nearly all of the expenses of something as economically important to all citizens as the air traffic control system, simply masks the real motivation for funding a greater proportion of FAA operations from the Trust Fund than is currently authorized. The Administration's motivation is simply to reduce the embarrassingly high Trust Fund balance which has accumulated because of inadequate spending on airport and airway capital improvements.

Mr. Chairman, that concludes my statement. I am pleased to have had the opportunity to participate in these important hearings.

Chairman PICKLE. I'm extremely regretful that Mr. Mineta was not able to be here this morning because I wanted to have an exchange of views here between either Mr. Anderson or Mr. Mineta and the administration.

We will have that at some point—either in this hearing or later. But I thank you, Mr. Anderson, for your testimony. I think you have given us a good, strong statement. I take it you are simply saying to us that your committee is authorizing levels of expenditures that are not met——

Mr. ANDERSON. Not met.

Chairman PICKLE [continuing]. Whether that is in the AIP program, the air traffic control system, programs authorized by the Science, Space, and Technology Committee, or even in FAA maintenance and operation. In almost every incidence you authorized more than is actually being spent.

Mr. ANDERSON. And we have the money sitting over here for it, and we can't spend it.

Chairman PICKLE. I think also you're correct that if we don't do something in 1989—either this fall or in 1989—that trigger is going to take place and the Congress is going to be held accountable for the awkward situation of reducing taxes at a time the need is getting greater, rather than spending the trust fund for the purpose for which it was actually created. There must be an answer found for it.

Now I also think you have probably put your finger on it when you said, in view of all these opposing views and explanations, that the budget and appropriation processes are not permitting these funds to be spent at the necessary level.

Mr. ANDERSON. Yes. And that's——

Chairman PICKLE. That must be the reason that we are not doing this. As we go along this morning I hope we can find some ways to get around that.

But essentially you are saying that, for whatever reason, the appropriation and the budget processes do not permit the expenditure. Am I correct in that observation?

Mr. ANDERSON. Yes. And I think the support for what we are trying to get across here is very general. I know that I have participated in hearings in California that were sponsored by the California State Chamber of Commerce. Senator Pete Wilson and I had these hearings, and the thrust of that meeting was to let us know that our aviation system is not as safe as it should be. We need to spend some money, and if need be we should raise some taxes to make the safe.

Now we have the taxes, and it looks like we're going to be reducing the taxes, and we're going to have to be answering questions for people in this next year as to why we reduced taxes when we know we need to spend more money for airports in this country. It isn't just California airports, it is almost nationwide that you will find people saying that our airports need more safety expenditures. Almost everybody you talk to in those areas recognizes that the user is paying—and he should pay, probably—but we're not spending it. We're going to have a tough time answering that question.

Chairman PICKLE. Thank you, Mr. Anderson.

Mr. Schulze?

Mr. SCHULZE. Thank you, Mr. Chairman.

Thank you, Mr. Chairman, for taking time to appear before us.

Glenn, some persons claim that the trust fund surplus is misleading because adequate funding is being provided but that a larger and larger share of the expenditures are coming from general revenue rather than from the trust fund because of the penalty provision. Do you share this analysis? What is your view?

Mr. ANDERSON. I don't quite get the—what's the question?

Mr. SCHULZE. That a larger share of the expenditures is coming from general revenue because of the——

Mr. ANDERSON. The money is basically coming from the user tax when you buy a ticket. That's my——

Mr. SCHULZE. No, no, no, no. The expenditures. The expenditure side is being reimbursed from general revenues rather than from the trust fund because of the penalty provisions.

Mr. ANDERSON. But they're both—see, the trust fund and the general fund, as far as we are concerned, are in the same budget process. So it goes into the same fund. It is pretty hard to——

Mr. SCHULZE. From an accounting standpoint this takes the money from another—it is an accounting procedure. I agree. But it makes the surplus in the trust fund look larger because the expenditure is coming out of general funds.

Mr. ANDERSON [continuing]. No. I think the way they figure when they give us these figures is to show the amount of money that is in the trust fund that is put there by the ticket tax, and then when we show how much is being spent it is how much money is being spent for facilities and equipment and for airport improvement and things. If you add those together you find that it only comes—like this year in—it is only 77 percent of what was authorized from that trust fund.

Mr. SCHULZE. Glenn, have any airport or airway projects actually suffered because of the penalty provisions?

Mr. ANDERSON. Well, I think yes. The fact that they're not getting the money to be able to do the projects is the penalty. I don't know what—almost every airport that I talked to in my area needs more money for more safety and more air traffic controllers and more things like that, and the fact that we're not hiring them, and the fact that we're not spending this money is a penalty. But I don't know what other penalty there would be.

Chairman PICKLE. Would the gentleman yield?

Mr. SCHULZE. Sure. I would be happy to yield.

Chairman PICKLE. Let me see if I can add to this. Mr. Schulze is asking you if part of the problem is that we're not spending from the trust fund as much money on operation and maintenance as the administration would like for us to. It raises an interesting question which I think we need to find the answer to.

As I see it, we are not spending the full amount from the trust fund on operation and maintenance—O&M—and the question then comes: should we?

The administration, I take it, wants to use more and more money on operation and maintenance from the trust fund, not from general revenue. They will argue and testify later this morning that because we are not spending, they are penalized. They can't spend that money on operation and maintenance if we are not spending

it over here; their O&M funds can be only up to 50 percent, and they say that's not fair.

It raises a question to me, then, of what the intent of Congress was. Did Congress intend for the trust fund money to be spent on operation and maintenance to the full amount? Or did they intend the full emphasis was primarily for the trust fund to be spent for airport improvement and facilities and equipment? Now, that is a basic question.

Now, I'll make a personal expression. I think the administration wants to spend this full amount on operations over here because that makes their budget look better. That takes care of a lot of expenditures toward another category.

Mr. ANDERSON. I think——

Chairman PICKLE. The Congress says, well, yes, that may be true, but we are saying that our intent is to spend it for airports and facilities, and if you don't spend enough money in those categories we are going to limit you to 50 percent on operation and maintenance. That's where the penalty comes in.

Now, I think this penalty is a sound one because the intent was to spend money for airport improvements and facilities and not for operation and maintenance in its totality. Some of it is to be spent there, but not all of it. And because we're not spending all of it, that goes into the so-called surplus and it builds up, as a result of not just the penalty but interest. We have got $3.8 billion probably in that surplus now that is not being spent.

So in my judgment we must determine what the Congress intends. Personally I think they intend to expend this money on equipment and facilities and the Appropriations Committee can't do it because of budgetary limitations. And then everybody points a finger. Now, I think that's our problem that we haven't found the answer to. I hope we can.

Mr. ANDERSON. I don't understand why they can't do it. I know we are providing enough money through our ticket tax to more than provide for both the operational cost and the capital needs that have been authorized.

Now, I suppose if I had to say a preference I am for both of them, but I suppose I am for capital investment maybe first. If you have got an airport that is unsafe you have got to make the airport safe.

But by the same token, if you have got people working in the FAA or air traffic controllers and you have them on payroll you have got to pay them.

But the fact that we are providing, as I said—we're only spending 77 percent of the money we're authorizing, which means that the rest is going into a surplus somewhere. How they figure it on their books, again, is the way they're figured in handling their budget.

But we are providing more than enough money to take care of both the needs of operating and capital outlay.

Mr. SCHULZE. I don't want to put words in your mouth, Glenn, but it sounds like you're saying this is more of an appropriation problem at this point. Is that what you are saying?

Mr. ANDERSON. Yes.

Mr. SCHULZE. More budgetary or appropriation? Which would you say?

Mr. ANDERSON. Well, it is the Appropriation Committee that has the responsibility of providing money for both sources and operating, but, again, where they break it down here I have my first figure showing FAA operations that they spent for that, next line is facilities and equipment, next line is airport improvement program, next line is research, engineering, and development. They cover the whole gamut and the whole bunch. Add them all together and it is only 77 percent of what we're authorizing.

Now, how that money is budgeted I can't tell you that. But, obviously, somewhere along the line we're not spending as much money as we should, and I tell the Appropriations Committee that they should be providing us more money, but you'll probably hear from them later. I don't know.

Mr. SCHULZE. Glenn, how do administration budget requests for facilities and equipment over the last three years compare to the actual amount expended, the actual appropriations?

Mr. ANDERSON. Well——

Mr. SCHULZE. Do you have those figures?

Mr. ANDERSON [continuing]. I could provide you with the figures that I have here showing fiscal year 1987 of authorized and appropriated, fiscal year 1988 authorized and appropriated, fiscal year 1989 authorized, and the House and Senate bills that are anticipated.

Mr. SCHULZE. You don't have the administration requests along with those figures? I'm just curious as to how they compare.

Mr. ANDERSON. They're increasing a little bit. I see the FAA operations was $2,924 million in 1987 and $3,150 million in 1988, and it looks like it will be somewhere between $3,400 million and $3,425 million—depending which bill we pass—in 1989.

Mr. SCHULZE. Do you have the appropriation——

Mr. ANDERSON. These are for FAA operations. But then I have got the facilities and equipment, and now there are two. But the sad story is that when you add them all up they still only reach, as I said, 77 percent of the money we're authorizing.

Mr. SCHULZE [continuing]. Thank you.

Chairman PICKLE. Do any other members of the committee have questions?

Mr. SHAW. Yes. I do, Mr. Chairman.

First of all I want to welcome my former chairman to my new committee assignment. It is with a great deal of delight that at last I'm sitting on a committee where I know as much as anybody else sitting up here.

Mr. ANDERSON. Incidentally, Mr. Chairman, I suppose you know I have been living with this guy on my committee for—how many years now?

Mr. SHAW. Almost 8 years.

Mr. ANDERSON. Eight years, and now you have got him. [Laughter.]

Mr. SHAW. I was about ready to say something nice about you, Mr. Anderson. [Laughter.]

Mr. ANDERSON. I thought he was very good We missed him. He's your gain.

Mr. SHAW. I thank you.

Mr. ANDERSON. And when a Californian says that about a Floridian that's not bad.

Mr. SHAW. Thank you. Well, it is a pleasure to have you here and to talk about something that you and I have been trying to be heard on for many years as part of the Public Works and Transportation Committee.

Mr. Chairman, it is clear what is happening here. We are using a dedicated user fee to balance our budget because of our accounting procedures.

I would compare that to a financial statement that a lawyer might prepare and give to his banker that included his trust account. It should not be in there. They are dedicated fees. They are dedicated moneys that should be used for a specific reason.

I believe that this committee has to be concerned about the trigger. If that trigger is pulled and those taxes are reduced, we are going to be faced with the dilemma of having to make up the shortfall under Gramm-Rudman through other revenue or look to the appropriations process for some cuts in expenditures.

But notwithstanding all of this, the whole philosophy behind this tax is a user fee specifically dedicated for specific purposes.

The Public Works and Transportation Committee has long thought that these funds should be released. They are badly needed across the country for air safety, expansion of our airports. There is nothing in this country that contributes more to the economic development of our country than the transportation system. And, of course, the air transportation system is a very vital part of it.

I think that we can find that as the airports expand, as our transportation system becomes stronger, revenue to the Federal Government expands through the income taxes on increased income, and the prosperity that is enjoyed by all of the citizens.

The problem, however, is one of an accounting error. We should not maintain dedicated trust funds on the budget. They should come off of budget.

Now, I know that there has been a longstanding feud between the Appropriations Committee and the Public Works Committee that could be addressed. But nevertheless—and I do see that there is a certain need to keep the appropriations process alive, but that does not take away the situation that the Federal Government should not be cutting down on the deficit by the use of dedicated funds instead of just general revenue. That's the problem which I believe this committee should face.

Mr. Chairman, I would also like to suggest that in our oversight capacity that at some point we would want to review the accounting systems that are used by the Federal Government and see exactly how many of these columns there are and what is being done as far as this and many other areas. I would like for our subcommittee to pursue that issue.

Chairman PICKLE. Mr. Shaw, I think you made a good suggestion, and we intend to do that. I think the appropriation and the budget processes go to the very heart of the difficulty we have.

I don't think it does us any good to point the finger at somebody else. But, we do not have the answer, and the answer has got to be forthcoming, and it may be that we'll find it partially in the minute examination of the budget process.

But Congress also enters into it because we simply refuse to be limited and constrained in different transportation areas because of the budget, and when we don't agree to that then the moneys are not spent and, therefore, the trigger goes into effect.

Now, it is a catch-22, but we have got to find an answer to this thing because the public is going to demand it, and we will look into that.

Mr. SHAW. I thank you, Mr. Chairman.

By way of closing I'd like to point out that the Federal Government still is on a cash accounting basis, and I don't know of any big business that can operate on that accounting method.

I'd like to again commend Chairman Anderson. I know that you will carry on the fight to take this and other trust funds off of budget as should properly be done.

Thank you.

Chairman PICKLE. Thank you very much.

Well, Mr. Anderson, I thank you.

Now we are going to hear from the administration—both DOT and the FAA. We'd like for you and your committee to remain here if you can. We might want to be asking questions, but at least we would like to have some of your people available if you can to possibly answer a question that may be made.

I'm looking forward now to the statement from the administration. If the next panel will come forward, Janet Hale, who is the Assistant Secretary of Budget and Programs for the Department of Transportation; and the Honorable T. Allan McArtor, Administrator for the Federal Aviation Administration.

If both of you would take your position at the witness table we will be glad to proceed.

Mr. McArtor, will you be the first witness? Has that been settled?

Mr. MCARTOR. Yes, sir, Mr. Chairman. With your concurrence, I will make a few brief statements followed by Ms. Hale, and then would be pleased to answer any questions that you and the rest of the committee may have.

Chairman PICKLE. All right. We have your written statement. Mr. McArtor, we would be pleased to receive your testimony now.

STATEMENT OF HON. T. ALLAN McARTOR, ADMINISTRATOR, FEDERAL AVIATION ADMINISTRATION

Mr. MCARTOR. Thank you, Mc. Chairman.

I welcome the opportunity to appear before you today with Assistant Secretary Hale to discuss the importance of preserving the Airport and Airway Aviation Trust Fund. This is financed by user fees. The Aviation Trust Fund has been an effective tool in our program to improve the national airspace system. Since 1982 alone, over $13.2 billion in capital improvements have been financed from the trust fund.

However, the perception remains that we have not used the trust fund for capital improvements. Nothing could be further from the truth. More than $20 billion has been spent since the fund's inception in 1970, and more than half of that has been spent since 1982. In fact, there has been a virtual doubling of trust fund capital

spending every 5 years. That is an enviable record of which both the Administration and Congress can be proud.

I venture to say that without this dedicated source of funds the FAA would not have been as effective in achieving the gains attained to date. As I witnessed the dedication of the last host computer in Salt Lake City last month, I was mindful that user fees provided the necessary capital to update this critical component of our Nation's air transportation system. In a period of tight budgetary constraints, investments in the national airspace system might have been postponed in the competition among programs over scarce dollars in the general fund without the availability of trust fund dollars.

However, I am also mindful today that even greater challenges lie ahead requiring greater monetary investments. You are all well aware of the current and projected growth in the aviation sector. Capital investment for airport development, facilities and equipment, and research will continue to grow, along with commensurate operating costs sure to exceed $30 billion over the next 5 years. In one program alone, the trust fund will be tapped to finance a $3.6 billion contract recently awarded to IBM to produce an advanced automation system which will provide our air traffic controllers with state-of-the-art capability to handle expanding air traffic well into the 21st century. We will soon be awarding a major contract for a terminal doppler weather radar system which can detect the presence of wind shear at many of our Nation's airports, and which will also be financed from the trust fund. In addition, investments in airport capital development are at an all-time high of $1.3 billion in this fiscal year, 1988. This program has nearly tripled in the last 7 years, and we are focusing these resources on critical safety and capacity initiatives.

We cannot overlook costs associated with operating and maintaining the air transportation system. Without funding to pay salaries of controllers and aviation safety inspectors, to maintain equipment, and to train personnel, our sophisticated technology will not be productively integrated.

Our fiscal year 1989 budget requests an increase of 900 positions in the critical air traffic control work force to an all-time high of 16,800 by the end of the year. In short, we need money to operate the system along with modernizing it.

The Airport and Airway Trust Fund is crucial in financing the capital programs to build the system and the operations necessary to keep it working. As aviation needs continue to grow, we need a stable source of funds to continue modernization, airport development, and adequate staffing of controllers, safety inspectors, security personnel, and technicians. This can best be provided by a dedicated aviation user fee.

Generally, users of the aviation system have been very supportive of the concept of user fees. Their concern, and, indeed, their anger, stems not from the assessment of user fees, but in our failure to spend those moneys. Most aviation users do not realize, however, that some of the user fees have not been spent because the general taxpayer is paying much of the cost of aviation.

I strongly oppose the tax reduction trigger in the Airport and Airway Safety and Capacity Expansion Act of 1987. While this

mechanism will reduce the balance in the trust fund, it will do nothing to improve the safety of the Nation's airspace, which is the FAA's primary mission, or provide an adequate source of revenue for anticipated funding increases in the years ahead.

We need the help of the Congress to provide a structure which will continue the dedicated aviation user fee to both operate and build the system. Allowing buildup of a surplus in the trust fund creates an unnecessary debate which is not healthy for either the administration or Congress, and allowing the dedicated user fee to be reduced is directly contrary to all of our purposes.

That completes my prepared statement, Mr. Chairman, and, with your permission, I will follow Ms. Hale's statement with questions.

Chairman PICKLE. Thank you. We will proceed on to Ms. Hale's testimony.

Please make your statement, Ms. Hale, and then we will have questions.

STATEMENT OF HON. JANET HALE, ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS, U.S. DEPARTMENT OF TRANSPORTATION

Ms. HALE. Mr. Chairman, I am pleased to be here with Administrator McArtor in front of this committee, and I congratulate you for holding this hearing. It is an important issue—one that has been debated for the last several years—and we are pleased to have the opportunity to discuss it with you today.

Allan McArtor has talked about the tremendous progress that FAA has made in improving virtually every aspect of the aviation system. The administration is committed to securing the funding needed to continue this progress.

We strongly support the user fee financing of the aviation system. We believe that aviation user fees should be used for the purposes for which they are collected, including capital programs and operations. Both are essential to the functioning of the system and, as Congress recognized, are legitimate uses of the aviation taxes collected.

Congress established the Airport and Airway Trust Fund to purchase equipment needed to modernize the air traffic control system, to support airport development and aviation research, and to support operation of the system. The 1982 legislation that continued the trust fund also included a section known as the penalty clause that you all have been discussing this morning. That penalty clause was there to encourage capital spending at the fully authorized levels, but its real effect has been to shift the burden of paying the Nation's aviation system to the general taxpayer, while a large portion of the dedicated user fees collected for that purpose have gone unspent.

Last year's reauthorization legislation authorized use of the trust fund to support FAA's operations in an amount equal to 50 percent of the total amount authorized for capital programs. The penalty provision then reduces the amount of money for operations that can be taken from the trust fund by $2.50 for each $1 shortfall between authorization and appropriations in any of the capital accounts.

Between 1982 and 1988, Congress appropriated $1.2 billion less than the President requested for the modernization of the air traffic control system. When Congress failed to appropriate all that it had authorized, Congress triggered the penalty provision and reduced trust fund support of operations. It is important to note that the penalty provision did not reduce funding for operations, but rather just shifted the source of those funds from the trust fund to the general revenue. Since 1982, $33 billion in Federal funds has been made available for aviation, while only $19 billion has come from the trust fund. The remaining $14 billion has come from the general taxpayer.

Between 1982 and 1988, some $4 billion has been spent on FAA operations that Congress contemplated would have or could have come from the trust fund. It has, instead, been drawn from general revenues because of the penalty provision. Since that amount stayed in the trust fund, it earned interest totalling about $1 billion over that period. So $5 billion of the current $5.7 billion surplus in the trust fund is directly attributable to the penalty provision.

The penalty provision has resulted in a situation where aviation user fees buy new air traffic control equipment, but may not be available to pay the salaries of the air traffic controllers who use that new equipment. Of course, both the equipment and the controllers are essential to the nation's aviation system.

The surplus in the trust fund has not been accumulated because total aviation funding has been constrained. Since 1982, aviation funding has nearly doubled, despite the tight fiscal constraints on most other Federal programs. For fiscal year 1989 the Administration sought a 44-percent increase in funds for modernization of our air traffic control system and an increase, as Allan said before, of 900 controllers and 300 safety inspectors. We will continue to seek the funds necessary to build and improve the system. The problem is that we are not making full use of the dedicated user fees to support that system.

Your hearing today is prompted in part by the automatic aviation tax reduction trigger that was included in last year's authorization legislation. That provision requires a 50-percent reduction in federal aviation taxes in 1990 if the amounts made available for FAA's capital programs in fiscal years 1988 and 1989 total less than 85 percent of the authorized amounts.

With the amount Congress appropriated for those programs for fiscal year 1988, and the amounts in either the House- or Senate-passed appropriations bills for fiscal year 1989, the tax reduction trigger will be activated on January 1, 1990. We believe it would be a serious mistake for Congress to let that happen. Congress has authorized the federal aviation program on a user-fee-financed basis, and we strongly support that. The penalty provision has seriously eroded that user fee basis of the program, and the tax trigger would be another major step away from user financing. Moreover, given increasing future costs of modernizing and operating the air traffic control system, a tax trigger would prove counterproductive since it would reduce the user fees that will be needed to meet the increasing costs. We urge that, rather than taking another step toward shifting the burden of supporting aviation programs to the

general taxpayer, the Congress address the problem behind the trust fund surplus—namely the penalty provision.

Most important, Congress must provide the funds the president has requested for FAA for fiscal year 1989, including the funds for modernization of the system. Working together to provide the needed funds and to remove the penalty provision we can ensure that aviation user fees are spent to keep our aviation system operating safely in the face of increasing demand.

Mr. Chairman, I thank you again for the opportunity to be here. Administrator McArtor and I would be happy to answer any and all of your questions.

Chairman PICKLE. Thank you, Ms. Hale.

Unfortunately we have a vote on and we will proceed and then come back as soon as we can. I will assume that you all will wait after this vote because we will come back immediately.

Ms. HALE. Yes, sir.

Chairman PICKLE. In the meantime let me proceed. First Mr. McArtor. I have in front of me here a computer list of over 2,300—nearly 2,500—projects that are eligible for trust fund financing. Now, at least 36 of these projects are safety related, and I guess over 1,000 of them are needed for improvement at each airport.

The total amount of this would cost around $4.6 billion. These are requests from airports all across the land. Now, these requests go to the very heart of the hearing as I see it. Is there a need, in your opinion, for more trust fund financing of these kind of projects to ensure the safety or the operation of airports?

Mr. MCARTOR. Certainly airport capacity is one of the challenges that this country has got to address over the next decade, and the airport improvement program—the AIP—provides the Government side of those funds.

There is leverage, of course, with State or local. Not all of the airport moneys come from authorities that issue bonds.

But, yes, those are qualified projects that could, in fact, receive government funding. We prioritized the projects to spend the moneys that we have, but, if you will recall from some of our previous conversations, that's why we have approached the Congress to consider perhaps changing the balance of the AIP funding, relative to the apportionment side of that funding.

As an example, the discretionary funds that we have available for capacity programs are somewhat limited because of the percentage apportionments that go out for enplanements. If the Congress were to consider changing that percentage from 49½ to 40 percent we could have literally a doubling in the discretionary moneys that we have for expansion projects.

Chairman PICKLE. Let me ask you: I heard your last statement and I want to come back to that, but first you are saying that these are needed projects, that to the extent that we can fund them, we ought to, but that they are not being funded.

Now you say that some of that money should come from the local community. That's true. But I'm not arguing that point this morning. I am looking at our responsibility on the Federal level first, and then that point certainly should be looked into.

Now, do any of these projects have any particular priority? Are some more important than others? Have you given them a high priority or low priority? Or you just don't fund them?

Mr. MCARTOR. Well, out of the moneys that we have to put out under discretionary judgment we prioritize those projects with respect to impact on the total national air transportation system, and they are balanced between major airports, intermediate airports, and small community airports.

Chairman PICKLE. Well, can I ask if you do have the money to fund these if you chose to fund them?

Mr. MCARTOR. No, I do not have the money available to me to fund them.

Chairman PICKLE. And why don't you have the money available?

Mr. MCARTOR. Well, the Congress has not set the limitation in the appropriation act high enough.

Chairman PICKLE. I know, but the funds are there to be expended if there was a specific appropriation for them?

Mr. MCARTOR. That's correct.

Chairman PICKLE. Fine. Have you requested any of these funds?

Mr. MCARTOR. Well, the administration submits a budget with requests for AIP funding.

Chairman PICKLE. Not the budget. Have you recommended to the appropriate committee that these projects be funded?

Mr. MCARTOR. Are you suggesting have I asked——

Chairman PICKLE. I'm asking you——

Mr. MCARTOR. Have I asked the Congress to fund those specific projects?

Chairman PICKLE. Yes.

Mr. MCARTOR. No, sir. We have, out of the AIP funds that are given to us in any given fiscal year, we——

Chairman PICKLE. But you are saying that you do have the money to be spent if the Congress would appropriate funds for the projects I'm referencing?

Mr. MCARTOR. Well, maybe we are arguing semantics here, sir, but I don't have the moneys. I only have the moneys that Congress gives me. So when you say you have the money, no, I don't have the money.

Chairman PICKLE. I understand that, but if the expenditure is being lost in the process somewhere along the line, in my judgment, it is not enough for you to say yes, we could spend it if we had the money appropriated.

Mr. MCARTOR. If you're saying——

Chairman PICKLE. If you don't ask for the money——

Mr. MCARTOR. If you're asking if there are moneys in the trust fund the answer is yes, but I don't own the trust fund.

Chairman PICKLE. You what?

Mr. MCARTOR. I don't own the trust fund.

Chairman PICKLE. Did you say you don't own it?

Mr. MCARTOR. Yes.

Chairman PICKLE. Well, I'm not saying that you own it. But I'm saying that the FAA is the agency that we look to for the expenditure of these funds.

Mr. MCARTOR. That's correct.

Chairman PICKLE. Now, Congress enters into it. I don't argue the point that the money has got to be appropriated. So I'll concede that. But I'm trying to find out why it is not appropriated. In your judgment, why isn't the money appropriated so that you could use it?

Mr. MCARTOR. Well, sir, I think it would probably be an understatement to say that the entire country is under extreme fiscal pressure and so all budgets have to be prepared and looked at in an overall context and very tough decisions have to be made, and we haven't walked away from those tough decisions.

Chairman PICKLE. I did hear you when you said that perhaps one answer might be that the discretionary formula can be changed from 40 up to 49 or 50 or whatever percent that you wanted to. I take that as a recommendation which you said is one good possibility for us to look into. It's a good recommendation and I'm glad to have that.

But it disturbs me that we have got this need. These projects, and I've looked at these requests, are for runways, for cracks in the runways, they are for lights, and they are for distance markers. They are critical safety items. Every one of them is.

Mr. MCARTOR. Yes, sir.

Chairman PICKLE. And yet they are not being funded.

Mr. MCARTOR. They are bona fide projects.

Chairman PICKLE. And I don't know if you put them on a top priority or low priority, but every one of them goes to the heart of the whole aviation system. You say well, until the Congress appropriates it. That's true, but I'm saying to you that we have got to find an answer for these things, and I don't think that we have done it appropriately.

Now, the discretionary funding formula certainly may be one good thing to look at, and I'm sure that we will do that.

Now, let me see. How much time do we have here? I have another question or two, and I think we'll just call a recess for 10 minutes and we'll be right back.

Mr. MCARTOR. Yes, sir.

[Recess.]

Mr. SCHULZE. The subcommittee will reconvene. Will the witnesses please take their place back at the table.

Mr. McArtor, before I ask questions I want to express my appreciation to you for the service your Harrisburg office is providing to airports in my district. In particular, the District Office Director, Larry Walsh, and the Assistant Manager, Dan Cassidy, have been extremely efficient and have developed a marvelous relationship with the local people and seem to be very responsive. It is a very positive relationship, and you should be commended for that.

I would like to ask you the question I asked the previous witness, and that is how the administration budget requests for facilities and equipment over the last 3 years compare to actual appropriations. I know Ms. Hale alluded to it in her testimony.

Ms. HALE. I can do it backward easier. Starting with 1989 the administration has requested $1.6 billion for the modernization of the air traffic control equipment. The House is $114 million below our request, the Senate is $300 million below us.

Last year, 1988—this fiscal year we are actually in—we were at $1.35 billion. The final congressional number was $250 million below the administration request. I think our biggest concern in that one was dropping the safety item—terminal Doppler weather radar.

So we have been concerned about the reductions that we have taken in the modernization of the air traffic control account.

Mr. SCHULZE. Madam Secretary, from your testimony it appears that since 1982, $33 billion has been made available for aviation, but only $19 billion from the trust fund, and the remaining $14 billion from the general taxpayer. Now, there seems to be a great dispute about this. People on the Public Works Committee say absolutely not, this is not true. Is this bookkeeping slight of hand? Is this factual? Can you lay it out in a way that we can settle those questions once and for all and explain this so that we understand the difference?

Ms. HALE. I think that the real difference is that Congress authorized in 1982 to 1987 that some moneys should come from the trust fund for operations. That money, because of the penalty clause—and as I said in my statement, that penalty clause resulted in $4 billion not coming from the trust fund.

Some portion, by statute, by desire of Congress, and by desire of the administration, should come from the general revenue, but not the split that we have had. I think Congress authorized the total amount that could come from trust fund at about 71 percent. Actually, because of the penalty clause, we have only gotten 57 percent.

So I don't think there is really a debate on the numbers. I think that really—and both you and Chairman Pickle said it—it is a debate about whether or not operations ought to come from the trust fund and whether or not there is any provision that Congress can put in a statute that would force Congress, the Appropriations Committee, to appropriate the money that is authorized.

Mr. SCHULZE. Well, should we try that or should we try to reimburse the trust fund when money is used from the general fund. In other words, what we're talking about is playing games, and we really shouldn't play those kind of games.

Ms. HALE. We have, Mr. Congressman, spent a lot of time figuring out what we can do. We have the same problem you have about high-trust-fund balances, collecting taxes for a purpose for which they are not being spent but go in a different direction. You could consider reimbursement. You could consider a higher trust fund proportion for operations. There are three or four options that have been considered within the administration, each of which has opponents sitting out there somewhere that—again, those that want to see this trust fund only used for capital programs oppose many of those.

From our perspective—and I think as Allan has said—you have got to have the controllers sitting behind the equipment to operate that screen and to watch those airport runways being used.

Mr. SCHULZE. Most airports are eligible to receive trust fund financing for 75 to 90 percent of a project's total cost. Yet trust funds actually contribute only between 30 to 40 percent of airport improvement project costs, and the remainder is funded by State

and local and private sources. Are the airports satisfied with this ratio and the current level of funding?

Mr. MCARTOR. Yes, sir. It is a bit of an oversimplification, but let me say that in general the Federal Government's share of an airport project is determined often by the ability of the local county or the State or the community to pay. But it averages out, as you have mentioned, to 30 or 35 percent of all development costs at an airport. The Government's moneys are the hard equity in a project, oftentimes within our leverage by airport authority bonds or industrial revenue bonds of the local area.

So by and large yes, the airports that do get funds seem to be pleased with the amounts that they get. The frustration, of course, are those airports that are not funded at all.

Mr. SCHULZE. How many airports must wait their full share of trust fund financing in order to do the necessary work because they are unable to get matching funds or State funds or local or private financing or IDP's?

Mr. MCARTOR. Well, one of the critical areas that we have in this country are the reliever airports, or the airport that is trying to go from a 3,000-foot strip to 5,000 or 6,000 feet, and they generally have less ability to pay or to match funds with us.

New airports also don't have the leverage of the entitlement funds that can help them out.

So we find that new and the smaller airports are the ones where we need to fund higher percentages of total development costs.

Mr. SCHULZE. If there are projects which are financed solely from the trust fund, how much longer does it take that type of project rather than projects with multiple financing?

Mr. MCARTOR. That has no bearing on the length of time that it either takes for the approval or the construction. The construction of a small airport is not any more difficult than the lengthening of an already existing runway at a large airport.

Mr. SCHULZE. So that additional financing or other sources does not increase the length of time overall for a project?

Mr. MCARTOR. No, sir.

Mr. SCHULZE. Mr. McArtor, in recent testimony before another committee you called the airport capacity problem the biggest Achilles heel and the most difficult challenge. How has air traffic outgrown airport and airspace capacities? Are there too many planes and too little airspace?

Mr. MCARTOR. Well, perhaps the best way to address that is to correct previous testimony here today. It was indicated that we have unsafe airports and, therefore, we need to improve them.

We don't have any unsafe airports. We have airports that, in order to maintain safety, are limited in capacity. So we don't allow an airport to operate in an unsafe condition.

To increase the capacity often means the lengthening of a runway, the establishment of a high-speed turnoff, more taxiways, more parking apron—even the installation of a microwave landing system for capacity purposes like——

Mr. SCHULZE. What's the FAA doing to make these changes to increase this capacity?

Mr. MCARTOR. Well, we don't build airports, of course. Local and State——

Mr. SCHULZE. Do you just respond, or do you have an aggressive program to increase capacity?

Mr. MCARTOR. Well, we are aggressively trying to point out the need for additional capacity so that we can have communities begin the process of either expanding their airport or building new airports.

One of the ways that we're doing that is to model the national airspace system so that through a computer model we can show the relationship of one airport to another and how if capacity increases—or even decreases—at one airport it can affect the overall national air transportation system. That has not been available in the past, and we are developing that model now.

Mr. SCHULZE. How do you get that down to the local level? How do you inform people? How do you make them aware of this situation?

Mr. MCARTOR. Well, we work very closely with the airport associations, the managers of airports. We work with the Association of Governors. We work with airport operators. And I have given literally dozens of talks to business communities in various different sized cities and towns about the need for airport capacities.

Mr. SCHULZE. Thank you for your testimony.

Chairman PICKLE. Thank you, Mr. Schulze.

Mr. Shaw?

Mr. SHAW. Thank you, Mr. Chairman.

I'd like to address the comments in question to either witness who cares to respond.

The 1982 bill, which I believe has been referred to in both of your testimonies, provides that a certain limited percentage of the fund can be used for general operations and the balance is to come from general revenue. It is very specific regarding the balance going to capital improvements. Is that a correct statement?

Mr. MCARTOR. That's right.

Ms. HALE. Yes.

Mr. SHAW. Ms. Hale, in your testimony you stated that Congress established the airport and airway trust system to purchase equipment needed for the operation of the air traffic system, to support airport development and aviation research, and to support operation of the system. I believe that really was a limiting effect of the 1982 legislation. Your statement goes on and says:

> The 1982 legislation that continued the trust fund also included a section known as the "penalty provision" to encourage the capital expenditure at a fully authorized level, but its real affect has been to shift the burden of paying for the nation's aviation system to the general taxpayer.

I think we could turn that statement around and say that the intent of the legislation was to require that a certain percentage of that trust fund be used on capital expenditure. I believe what Chairman Anderson was complaining about in his testimony was that the full amount was not being used in that manner but, instead, was being used to offset the deficit. And, of course, Ms. Hale, that comes into your shop.

We set up the legislation and you have to operate within those guidelines. We give you a lousy accounting system to boot. I might say to my chairman I believe it was a certain president from Texas

who established the accounting system that we do have with regard to the use of the trust fund.

But I believe, nevertheless, it was the intention of Congress in the 1982 legislation to see to it that the expenditures which Mr. Pickle raised in his hand be fulfilled. I'm sure there are some in there that would not be approved, but I think that it's very clear that the legislation was set up for the purpose of being sure that the capital expenditures were made in a timely way.

Would either of you like to comment on that?

Ms. HALE. I think you're correct. It is, again, semantics about whether it is there to encourage you. You are correct. It says that 100 percent of the capital programs can be financed by the trust fund. But once you reduce that amount in appropriations, then you reduce the operations. At the same time, you have collected the taxes to cover the operations.

This committee established a tax level that assumed that you would be spending not only the capital amount, but also the O&M amount. And it is a tough choice for us because, quite frankly, when either Allan or I and the Secretary and the administration look at how much money we are going to request I think we request the amount that we need—the O&M amount, the F&E amount, tough decisions on an airport grant amount—but it is not a trust fund balance issue, and it is not trying to balance a deficit out of the trust funds, it is really looking at——

Mr. SHAW. Well, let me say this, Secretary Hale: in your budget responsibilities would it be simpler for you to encourage capital expenditures if the trust fund were off of budget?

Ms. HALE. I'm not sure that it would be easier for me. I think the issue——

Mr. SHAW. But this trust fund and other trust funds are considered in the total picture of Government expenditures, particularly in light of the restraints imposed by Gramm-Rudman.

Ms. HALE. That's correct. But also those restraints of Gramm-Rudman—and I think it is one of the misconceptions that because there is a $5.7 billion cash balance that that is being used to balance the deficit. In any given year the deficit is the annual intake versus the expenditure. We collected in 1988 $3.1 billion into that trust fund. We will expend in 1988 $3.4 billion out of that trust fund—in total FAA expenditures, $5.7 billion.

So from a Gramm-Rudman perspective, which both Congress and the administration have to consider we are spending even more out of the trust fund than we are taking in.

Mr. SHAW. I believe one of you testified that the administration asked for over $1 billion more in capital expenditures than the appropriation allowed. In what area was that money to be used?

Mr. MCARTOR. That's part of the national airspace system plan—the overall modernization of the equipment in our nation's airspace.

The problem that has occurred with that is that in order to maintain the momentum of this highly integrated program of literally 90 different contracts and projects we have created a bit of a bow wave of commitment for failure to reach the levels of expected funding that we had anticipated over the last couple of years.

So we are building in a problem here for ourselves that if we don't get anticipated levels of funding in our facilities and equipment account it is going to have a material impact on the ability to roll this equipment out on a timely basis. And because it is highly integrated it has an affect on the entire national airspace system plan.

So we are most concerned about reductions of appropriations below our requests in the F&E account.

Mr. SHAW. Is this a reduction that is triggered by nonexpenditure? Is that a permanent reduction that has to be undone by Congress?

Ms. HALE. Annual appropriations.

Mr. SHAW. Each year?

Ms. HALE. Each year.

Mr. SHAW. So would——

Ms. HALE. Then what happens—if I can go back to the 1988 example when the appropriations committees and eventually Congress reduced our request by $250 million, I used the terminal Doppler weather example. There was $120 million that was not appropriated for a safety item. We will be ready to sign that contract, but we will have to wait a fiscal year. We will move it into 1989, but then that moves something from 1989 into 1990 and 1990 into 1991. So it is the bow wave that Administrator McArtor has been talking about.

The question is: over the last 10 years we have been going through the R&D stage. We are now ready for this equipment and advanced modernization, terminal Doppler, and a lot of other projects that have been in the planning stages are now ready to come on. We need the money for it. And at the same time our requests are going up, the pressure of Gramm-Rudman that is going to be facing this Congress is facing us. So it is tough for us to have dealt with the cuts in the past, and we know what we are facing in 1990, 1991, and 1992.

Mr. SHAW. Mr. McArtor, is the computer system that is presently going into the system going to be part of the Doppler system when it is finally brought on line across the country?

Mr. MCARTOR. You're referring to the host computer system which goes into all of our 20 en route air traffic control centers, and that program is complete. It was just completed recently, as a matter of fact, with the installation of the computer in the Salt Lake City Center. That is the host or core computer of our en route traffic. It does not directly link to the terminal Doppler weather radar [TDWR] project. That is more of a stand alone identification of wind shear and the communication of that information to the controller and pilot.

Mr. SHAW. Has the research or the technology on the Doppler system come along far enough for you to start putting it into airports across the country.

Mr. MCARTOR. Absolutely. We're ready to go with that, and will go with it just as soon as we click over into the next fiscal year.

Ms. HALE. Actually we had some good successes with the demonstration one out at the Denver Airport, and I think in July we found that it did detect five wind shear bursts, and we sent planes around. So I think we have seen the first evidence that the technol-

ogy has developed to such a stage that we are quite anxious to be able to——

Mr. MCARTOR. We literally saved five aircraft out there as told to us by their pilots, by recognizing the wind shear and being able to communicate that to the pilots.

Mr. SHAW. That is very important in many parts of the country. Of course in Florida we are very sensitive because of the Delta crash that was in Texas which originated in my own home town of Fort Lauderdale. We are very subject to wind shear in south Florida and are very anxious that the system be brought on line.

Thank you, Mr. Chairman.

Chairman PICKLE. There is no question that the Public Works Aviation Subcommittee makes recommendations for expenditures in various categories that we all want to be met. Now you say that Appropriations is underfunding many of these categories—Ms. Hale, you keep making that statement—and, therefore, the money then comes as a penalty out of O&M. Why is it? In your opinion, why doesn't the Appropriations Committee approve full funding the way you want it or you recommend it? What is your opinion on why they don't?

Ms. HALE. Mr. Chairman, I'm working with that very committee right now to get an 1989 bill, so I am treading on pretty thin ice here.

There is an amount that comes from the budget resolution over to the full committee of appropriations to allocate for the transportation needs of this country. They have to make very tough choices—tough choices of mass transit; tough choices of Amtrak.

We made those when we sent our budget up to reduce those expenditures to be sure we could get the levels we needed for both FAA and Coast Guard. We make our tough choices, then Congress and the Appropriations Committees have to make them, and sometimes they make different ones.

But I think when you try to make room for—they fund more than we request for airport grants, less than we request in the modernization of the air traffic control system, reduce our operations, and at the same time increase mass transit and Amtrak above our request. It is a different set of priorities, and one that we don't always agree with as an administration when we are up here negotiating on appropriations.

Chairman PICKLE. All right. Let me establish a principle. I want to emphasize that we keep saying Appropriations Committee doesn't appropriate. We all agree on that. But there is a reason for it, and I don't think you have been totally open as far as for clarity purposes, from my standpoint, about why it is. The reason I assume that Appropriations doesn't appropriate every category that you want it to is that they are limited under the budget process on what they can spend.

The Department of Transportation priorities and the congressional priorities are different. You cut down sharply on other categories.

Ms. HALE. That's correct.

Chairman PICKLE. You cut mass transit, Coast Guard, and other categories.

Ms. HALE. No, sir; we don't cut Coast Guard.

Chairman PICKLE. Well, whatever. About four categories. Four or five.

Ms. HALE. Yes.

Chairman PICKLE. When you cut them down sharply in your budget the Congress says they're not going to do that. We're just not going to agree with you. When we don't agree and we put money back in, that leaves less money over here. When there is less money there, then under the rule that we set, the penalty clause is triggered. Now, how do you stop that?

The Appropriations Committee is limited under your overall umbrella cap. They can spend only so much. When you choose to set your priorities, that is one thing. But Congress has got to prioritize both. Somehow between what you say you want to spend and what the Congress says we have got to spend there must be an answer found that will enable these funds to be released.

Mr. McArtor, I asked you about all of these projects here, and I have listed them here. I haven't spelled them out, but I don't need to. But here is one that says there is a request for distance remaining signs at a cost of $1 million. That sounds like an important need to me. Does that sound like it is needed to you? That kind of project?

Mr. MCARTOR. The question of importance is how important when compared with some of the other projects, and we have to prioritize——

Chairman PICKLE. Would you say——

Mr. MCARTOR [continuing]. Those projects, and, quite frankly, Mr. Chairman——

Chairman PICKLE. Then you are saying that some are more important than others?

Mr. MCARTOR. Absolutely.

Chairman PICKLE. All right. Would you say that they are all needed?

Mr. MCARTOR. I think they are all needed, but in all honesty I must say that out of those 4,000-some projects, even if we had the moneys I don't think some of them would be eligible for——

Chairman PICKLE. Some of them——

Mr. MCARTOR [continuing]. Federal funding. But certainly a substantial amount would be.

Chairman PICKLE. All right. Do you say that any of them are unnecessary requests or just junk requests?

Mr. MCARTOR. No, but they wouldn't be appropriate for Federal funding. Not that they are unnecessary, but we would not likely federally fund some of them.

Chairman PICKLE. Whether it is local or whether it is Federal or State or whether it is X source there is a need for these projects?

Mr. MCARTOR. Yes.

Chairman PICKLE. And some may be more important than others?

Mr. MCARTOR. Yes.

Chairman PICKLE. But at least there is a request for $4.6 billion, and we are caught in a budgetary snarl that can't release the moneys. The Public Works Committee recommends it. The Appropriations Committee cuts it back because they are limited by the

budget. And you can lay it off on the budget, but we don't have the answer to it.

Now, Ms. Hale says that it is a shame that taxpayers are paying for the FAA's operation, and that seems to be your problem. We ought to repeal the trigger. Both of you are against the trigger.

Now, I'm asking if you think that the Congress set up these trust funds so that you could spend all the money on operation and maintenance that you want to? Do you contend that?

Ms. HALE. No, sir.

Chairman PICKLE. All right. And I don't think the Congress intended that, either. The Congress clearly intended that you spend this money primarily for AIP purposes. Now, when you don't spend it or if the Congress doesn't spend it, then we are saying, "All right, we're not going to let you use our trust fund money to pay the salaries of all these people at the expense of airport facilities or equipment."

Ms. HALE. But, Mr. Chairman, that same Congress and this very committee collected taxes to pay operations and maintenance, and that is where the disagreement comes from. We collect taxes to pay for part of—and only part of—the operating expenses.

Chairman PICKLE. But what is wrong with the General Treasury paying for some of the money for operations and maintenance? What's wrong with that?

Ms. HALE. For some of it, absolutely none. But the question about whether——

Chairman PICKLE. Well then why did you spend half of your testimony crying about the fact that they are doing that?

Ms. HALE. Sir, I think what we were intending to say is that we have established a certain percentage of our dedicated user fee taxes to go to cover some part of operations. That hasn't happened. One year we collected taxes to pay for some operations and not a penny came out of the trust fund.

It seems to me that those airplane passengers need those controllers almost as much as they need the equipment, so some portion is an appropriate level. We will always debate a little bit about what that portion is, but I think it is an important principle to have some part of it come out of the trust fund.

Chairman PICKLE. Well, I'm not arguing about the principle, and I'm not arguing. We don't have the formulas. But the question is: if the formula is correct, then why isn't this money being spent? And you say it is not being spent simply because the Appropriations Committee doesn't function. When they don't function, because of the rule we put in, the penalty goes into effect. And now that surplus built up.

Ms. HALE. In two——

Chairman PICKLE. Wherever it comes from, the surplus is there. There is nothing wrong, in my judgment, if we take some of the money out of the general revenue to pay for these operations and maintenance.

Mr. MCARTOR. Mr. Chairman.

Chairman PICKLE. So I will submit one more statement—Mr. McArtor, I recognize you.

I submit to you that I suspect, or I feel, that you, down the street, would rather spend your money somewhere else than in air-

port improvement projects. I make that as an observation, not as an accusation. But it just seems to me that you make your choice to spend it somewhere else, and you would rather make your budget look better by spending it over in operations and maintenance rather than the API.

Now, that's a statement of mine, but it is what I began to suspect and the budget has taught me.

Now, Mr. McArtor, would you want to respond to that? I see you're a little bit anxious here to respond.

Mr. MCARTOR. If everything is working as the Congress would wish it to, by design about half of our operations moneys would be coming from the general fund and half of it I think ends up being spent out of the trust fund.

The phenomenon that exists, though, and why we are criticized—you are criticized, as well—by the public and the users of our system is for the trust fund balance that has been allowed to build. And that, in part, has been allowed to build because of the penalty provision.

What we're saying is that $4 billion that could have come out of that trust fund balance has been spent by the general fund because of the penalty provision. Had the penalty provision not been there we would have been able to spend it. And the reason the penalty provision had been invoked is because the appropriations amount for F&E had not reached the authorizers' intended levels. So that is how it ended up there.

Chairman PICKLE. Yes, I would agree with you on that, but there is a reason why Appropriations hasn't done it. Limitations are in place because of the budgetary umbrella and your priorities are different than the Appropriations Committee and the Congress, too.

Mr. MCARTOR. They're saying——

Chairman PICKLE. We are all a part of this, but each is saying we can't do it because of this. The result is that funds are not being spent. Now, the source of a lot of the surplus is the penalty trigger. I agree with that. I don't see anything wrong with that. The trigger is simply saying to us, to the Congress and to you, that if you don't spend this money primarily for the AIP program or facilities, we are not going to let you spend it just on operations and maintenance.

Now, with respect to the trigger, the Chair is glad to have Mr. Daub with us this morning. He was very active on this amendment last year and has asked to sit in with us this morning. I am pleased that you are here and I would recognize Mr. Daub if he wants to make any questions or statements.

Mr. DAUB. Mr. Chairman, I commend you for the hearings. I think they are important. We should carefully assess what the impact will be on the trust fund because of the way in which it must fit into the budgeting process. It is not static. It is dynamic. Demands build on the system.

Yesterday the citizens of this country heard a recent study that over 50 percent of the flying public considers safety as the main flying concern rather than whether the plane leaves or arrives on time or whether they have a hassle over the price of the ticket or stand in a long line.

If that safety concern is as clear today as it was a year ago—which I think was part of the reason for the reduction trigger and part of the logic of why Congress responded in the way it did—then I think that same logic applies today. I don't say it is a perfect solution.

The great President from Texas, Mr. Chairman, caused the situation because all those trust funds are now on budget and now we are dealing with the problem of the trust funds being on line. There is a degree of inflexibility that is involved.

But what we do know now is that under constraints which you testified about is that you clearly do get a benefit if you don't spend that money, and that ought to be admitted. The benefit is that the deficit looks smaller by some factor.

If you spend the $6 billion in this trust fund, the Gramm-Rudman sequester trigger would have been pulled. Now that's clear. Now that's the dynamic. We are in a different budget world than we were 1 year ago and 5 years ago. During and each of the 5-year periods of the past 20 years the trust fund expenditures for capital construction have doubled, which is a terrific result. I think that's fine.

I believe in user fees. I believe in funding a substantial amount of the increased need now and in the future from imposition of user fees that are fair and apportioned and symmetric with need. But I believe they ought to be spent.

Now, the right answer is to put the right shoe and the right foot forward and not argue that because of the constraint we can't do it. In fact, the argument ought to be that the trust fund ought to be off line. That gives the Congress and the administration—whoever it is—more flexibility to deal with the use of those user fees and not have to run a shell game in the accounting process all the time looking at overall numbers, and let OMB say, "But if you don't spend it that is one good way to make sure that that deficit looks smaller."

It is not just this trust fund, it is a series of trust funds. So we are not just picking on this one.

So if you can't get a constitutional amendment to force a balanced budget, and you can't get a line item veto, then the next best thing, if you can't move all of the trust funds off line, is to put a reduction trigger in every one of them, not just this one. Then you begin systemically to get at the root of the problem, and that is masking or hiding what the true nature of the deficit is.

We are telling the American public every day what the deficit is, but in fact we're not telling them the truth. There is no truth in budgeting. So for fiscal purposes it is at least right to start with the forced spending of a taxpayer's dollar. If we're going to collect the user fee, then it ought to be spent for the purpose intended or we shouldn't collect it.

What this does, in my opinion, is put pressure on Congress and the administration to deal with the problem. Without the reduction trigger we would not deal with the problem. It would take some powerful budget administrator or some powerful committee chairman who would not use the surplus to help them solve their numbers balancing game to stay within the constraints on paper.

So I believe the administration is wrong to criticize the trigger, but that means taking a short-run or a long-run view of how we deal with the budgets and, at the same time, deal with the more pressing concerns of air safety. I know that's your job.

Mr. Chairman, I would think that the Ways and Means Committee should, as you are now doing, look carefully at the trigger and its constraint, but not let the Congress or the administration off the hook.

This is a good hook to have in place right now in order to get some results, principally to get that money spent for the purpose intended. I don't think it will get spent for the purpose intended any other way.

I believe the two witnesses have contributed substantially to a good hearing. I don't really have any questions of them. The Administrator and I have discussed this before, and we have enjoyed doing television programs together, and I think he is doing a great job. I haven't had a chance, Secretary Hale, to get to know you very well, but I think you're doing a great job. You have a problem, too, and that is making your numbers turn out at the end of the month and the end of the year.

I believe the Ways and Means Oversight Subcommittee is doing the right thing, and I'm pleased that you're looking into it.

I don't want to be set in concrete on it, but I think to change it or to repeal it takes us a step backwards rather than a step forward.

Thanks, Mr. Chairman, for your leadership.

Chairman PICKLE. We thank you, Mr. Daub. We're glad you could join us.

The tax trigger is in place. It is a good trigger. I think the trigger will force the Administration and the Congress to get together on this issue because the public is going to demand it. They will not let us wallow around in our own individual contentions about priorities and not let improvement to the system take place.

Mr. DAUB. Mr. Chairman, may I just add one thing? You're going to have a panel of four witnesses to follow this panel. I particularly want to say that John Baker has done an outstanding job of contributing ideas and information to this whole process of how to better manage our airport and airway trust funds.

Chairman PICKLE. I am pleased to have that comment.

Now, Mr. Chandler, do you have any questions or comments to make?

Mr. CHANDLER. Well, I don't want to prolong this. I need to leave in just a few minutes, but I will try to get back.

The point I want to make sure is on the record, Mr. Administrator and Madam Secretary, is that the bottom line of this whole thing: is there potential for spending more on facilities, whether it be the distance remaining signs at an airport, or snow removal equipment, or feeder airports? Is there potential for more spending for capital projects than we spend now?

Ms. HALE. Mr. Congressman, I think the answer to that question is very definitely yes. But it goes back to the same thing that Allan McArtor has said before: there are tough choices. In any decision you spend more in one account—whether it is in aviation and in just one of those aviation accounts, or whether it is in transporta-

tion—because of Gramm-Rudman, because of the financial situation this Government is situated in now, probably something else is going to have to be reduced, and that's what happens as Congress finalizes appropriations bills. They make very tough choices.

Sure you could spend more, but——

Mr. CHANDLER. But I believe the point that Mr. Daub makes is important here. This tax is not collected from the general public and it doesn't relate to those other priorities, it relates to aviation.

Ms. HALE. This tax does not cover all that we spend on aviation.

Mr. CHANDLER. I understand that.

Ms. HALE. Even in the capital accounts.

Mr. CHANDLER. But we're still not spending all of it either, and so I think the question is: as long as there is a need that goes unmet in aviation and we're not using aviation trust funds for that purpose, then why collect the tax from aviation?

I'm not enthusiastic about the trigger, either. I was one of the cosponsors of the amendment when we put it on. It would have been far better to go at it from a different direction, but it came out of our frustration. The Administrator has attended the same pilot town meetings that I have. The frustration we hear from them is: why are we paying this? Why is this being collected if you are going to let those needs go unmet?

Ms. HALE. I think one of the things that I'd like to emphasize and then maybe Allan would like to say something—we have spent a lot of time on the technicalities of the penalty provision and the tax trigger. I think the far more important question is the one that you have asked—and every other member of this committee—is how will we be sure that we meet the aviation funding requirement of the FAA? And that is all of us working together to be sure that the dollars are appropriated to meet those needs.

Mr. CHANDLER. Well let me suggest a notion that has been in my mind, Mr. Chairman—and this is so embryonic I'm even hesitant to suggest it. But I have a feeling that in my community the people, whether in aviation or not, know a heck of a lot better what the needs of that community are than any of us could possibly know back here. I wonder if there isn't the potential for this trust fund, along with others that are dedicated to specific purposes like the Highway Trust Fund, to allow States and local governments to collect part of it. Perhaps there would be some match that would be required. The State and local governments would, keep it and use it within the confines of the intended purpose—sort of a trigger before the trigger, if you will. Let the people who understand the problem and have to struggle with it and deal with it have the resources to address it.

Ms. HALE. Many States are moving in that direction having dedicated aviation trust funds or dedicated transportation trust funds. But we have seen progress in so many States across the country. I think Florida is one. Wisconsin, Illinois, and California have made progress in raising taxes dedicating them for transportation and for aviation, and I think your suggestion is very valuable.

One of the other things we had in last year's authorization bill was a State block grant where you would marry some of this money going out to the State, marry not only the Federal money but the State money, and make some decisions at the State level

that will enhance capacity throughout the system, but also address the local needs.

As you said, your constituents know a lot better than sometimes we all do in Washington.

Mr. CHANDLER. Thank you, Mr. Chairman.

Chairman PICKLE. Let me pursue that point because it has been suggested that the trust fund moneys should be changed to allow for different kinds of funding. Let's explore that just a minute.

Mr. McArtor, I guess this question is for you, or either one of you. One suggestion has been that we might have interest-free loans. What do you think about having interest-free loans? Is that a possibility?

Mr. MCARTOR. Well, I think there are several options that the Congress may wish to consider with respect to the trust fund balances as more creative ways to use those balances under the limits of whatever authorities you may have, vis-a-vis borrowing against the trust fund or using the trust fund as a guarantor of airport bonds. But that is a little out of my pay grade, Mr. Congressman, and that's something——

Chairman PICKLE. You're saying that interest-free loans——

Mr. MCARTOR [continuing]. That this committee could certainly take a look at whether there are some more creative ways to use the trust fund balances in order to further capital projects.

Chairman PICKLE. Well, then interest-free loans or low-interest loans are a possibility if we could work it out some way?

Mr. MCARTOR. Yes.

Chairman PICKLE. What about loans from the trust fund, itself?

Mr. MCARTOR. Again, we're more than willing to manage any kind of funding mechanism that would be authorized for the FAA to manage under which we could use those trust funds.

Chairman PICKLE. All right.

Mr. MCARTOR. But that's something regarding which we would certainly look to you for leadership.

Chairman PICKLE. What about allowing airports to begin these projects before the Trust Fund Financing Act is triggered? In other words, receive some of this money before hand? Is that a possibility?

Mr. MCARTOR. About as close as we can get to that right now is issuing letters of intent to some airports, which we have done for about a half a dozen airports, and which assures them of funding.

Chairman PICKLE. What suggestion do you have of how we could better use the money that we do collect? Can we take better advantage of the fund?

Mr. MCARTOR. Yes, sir, we can.

Chairman PICKLE. How can we do that?

Mr. MCARTOR. Because capacity is such a large issue before all of us right now, we would like to see the Congress rearrange the percentages of the AIP program so that we would have more moneys available for discretionary use for capacity.

Chairman PICKLE. All right.

Mr. MCARTOR. We would be able to get a lot more bang for the buck for that.

Chairman PICKLE. All right. Now——

Mr. MCARTOR. We'd also like to be able to have the FAA establish the priorities with respect to capacity. We get a lot of help from Congress, as you well know, on that subject.

Chairman PICKLE. Well, I wish you would submit for us, Mr. McArtor, either now or later, how you would change the formulas. I like your suggestion that we all do something about improving the discretionary fund. The AIP funding is now approximately 34 percent of your formula, and only 40 percent of that goes for discretionary funds.

Now, that is one good approach. What about the other categories? Have you got other suggestions on how you would change the formulas? Can you submit them to us?

Mr. MCARTOR. Yes, sir. I would be glad to.

[The following was subsequently received:]

There are several options to change the airport grant formula to increase discretionary funding to better target resources for safety and capacity projects. One option would be to reduce the cap on the total amount apportioned for primary and cargo airports, which is established at 49.5 percent in the Airport and Airway Safety and Capacity Enhancement Act of 1987, thereby increasing the amount apportioned for discretionary projects.

A second option would be to restructure the formula in line with the Administration's 1987 reauthorization proposal for FAA which would provide a substantial increase in the amount of discretionary funds available, increasing the amount to 43 percent of the airport grant program versus from 10 percent to 26 percent, depending on the size of the programs, under current law.

Mr. MCARTOR. The simple answer there is that right now there is a 49½-percent cap on formula-based funding. If we could drop that to 40 percent at the levels that we have right now in the AIP funds we would literally double the amount available to us in these discretionary new capacity projects.

Chairman PICKLE. All right.

I've got another question to ask you, Mr. McArtor, and that is: I read in a magazine article recently where an FAA official, I think the associate administrator for policy, said that we need to do a better job of providing surface transportation to our airports. In particular, he recommended that the circle around a new airport ought to be tied in with different modes of transportation because, quite often, it is just as important to be able to get to the airport as it is to get out of that airport. That fact, alone, has a great deal to do with both takeoffs and landings and how we keep the traffic flowing.

Now, we have a little difficulty in that area. For instance, in my own city of Austin we are contemplating building a new airport. We are trying to get some urban mass transit funds to provide for a basic consideration of mass transit somewhere down the line if that could be provided.

Now, here's an FAA official saying that we ought to give emphasis to it. I don't know, though, that Urban Mass Transportation Administration is listening to that. I wish you would particularly speak to UMTA, because if, indeed, improving the access to the airport is important, the Urban Mass Transportation Administration ought to see that there is a direct need to have that done. Some of those UMTA funds could be used for long-range planning purposes. Would you agree or disagree with that basic premise?

Mr. MCARTOR. I don't think there is any question that major airports are intermodal transportation hubs with air, rail, and road transportation, as well. It does little good to have a modern airport if you can't get to it, so certainly they are integrated, and I would be more than happy to mention that to my fellow modal administrators.

Chairman PICKLE. All right. Now, let me say this to you: it seems to me this morning that we have pretty much agreed that there is a need to do something about these 2,300 airport projects. Some may have more priority than others, but we know that we must make steady improvement.

We can't accept the fact, as noted in yesterday's Washington Post, that the U.S. agencies have needed to target congestion at O'Hare because of near misses. There was something in this morning's paper about a similar type of near accident. Almost weekly there is a report.

You know, it makes me ask if there are too many airplanes in the air at this particular point. Are there?

Mr. MCARTOR. No, sir. No, there are not too many airplanes in the air at any one time.

Chairman PICKLE. Are they too old?

Mr. MCARTOR. No, sir.

Chairman PICKLE. Are they being maintained properly?

Mr. MCARTOR. For tne most part, yes, sir.

Chairman PICKLE. I beg your pardon?

Mr. MCARTOR. For the most part, yes, sir.

Chairman PICKLE. For the most part. Well, then, I wouldn't expect you to answer it differently because we don't want to scare the public. But we do know that they get scared anyway. All of us have to ask ourself——

Mr. MCARTOR. The public doesn't need to be scared.

Chairman PICKLE [continuing]. To do our Hail Mary's every time we get on a plane.

Mr. MCARTOR. The public's confidence in aviation is a just-deserved confidence. The point is that we have rapid growth in aviation. We have doubled the number of movements in the last 10 years, and we will double them again in the next 10 years. We have a capacity challenge that we must meet if this country is going to rely as much as we do on the air transportation system.

Chairman PICKLE. Well, Mr. McArtor, I don't question your intent and your hopes and your ambitions, but I do know you want to see these improvements made.

We are caught right now in this U.S. Congress where we can't seem to appropriate the money that we all say should be used for airport improvement.

I don't like this idea of saying that the surplus is phantom money because it is not phantom money. It is there. It may be partially because of the penalty, but the money is there to be spent for the projects that are needed and we are not doing it.

I don't think it is enough for us just to point a finger, because I'll tell you what is going to happen: we put this trigger in last year; the trigger is going into effect in 1990; and, if in this next year we don't do something about it, it won't be a matter of preferences, it is going to be automatically imposed.

Now, the Appropriations Committee has got to almost double their fiscal year 1989 appropriations—or greatly increase. I don't know how much they have got to make, but I understand that Appropriation has got to put about $400 million more in above the House bill and even more than that above the Senate bill to keep that trigger from happening. Now, they are mindful of that.

I don't think this Ways and Means is going to change that formula. And we're not doing it as a threat, but we have got to have something to force the Congress to work this problem out with the administration, whoever it is.

I think, then, the trigger is a good thing.

Now, if we don't change the trigger and nothing is done, then you're going to be faced inevitably now, sir, with the fact that you're going to either take this fund off budget, and this committee has not agreed to do that, and you do not want it done, but we're going to take it off the budget if something isn't done to unsnarl this problem. I tell you that that's going to happen.

Or, if we don't set up a category where you specifically pay more money by functions, maybe that's an answer to it. Or, maybe a combination of some of these other proposals about financing, increasing the formula change. But inevitably that trigger is going to come about unless these problems are met.

Now, it seems to me like the Congress and the administration have got to work out this problem. We ought not let ourself just be caught on our own sword and let the funds go down. The public won't accept this.

But the money is given. Now, it's not enough for us, either, as I said, to say, "Well, you have made great progress with funding from the trust fund." You have. You have spent a great deal more since 1981 and 1982, and you can be proud of that.

It isn't enough to say that you spent more money out of that than these other programs, because you have spent more than they have. That's true. But we've got a dedicated fund. We're not out appropriating funds. We don't appropriate. The fund we're really using, by and large, is in the budget area.

So we can't just answer ourselves by saying, "Oh, well, we're doing really good." We are doing good, but we're not doing enough if there is a need. Now, you say there is a need. I, for one, will be looking for ways to cooperate with you and the administration, but I think we've got to have straight talk and quit trying to just protect our own flanks by our own reasoning and not spending this money.

So I'm going to ask that you keep in close touch with us. We're going to have additional hearings, and we're going to hear from a panel in a minute that I think will go to the heart of what they think is a problem, and I'm anxious to talk to them.

Now, I made that kind of summation for you. Do you have anything you want to add to that?

Ms. HALE. Mr. Chairman, I think that for both Allan and I, I would like to thank you all, again, for having the hearing. We appreciated the cooperation of all the members and the staff who were particularly helpful to us, and we will look forward to working with you because, as you have said, we are all in this together. We all have the same desire to improve aviation funding and ap-

propriate resources available. So we do want to work with you and look forward to the opportunity.

Chairman PICKLE. Fine.

Mr. Schulze, do you have any comments to make?

Mr. SCHULZE. Mr. Chairman, let me just state that it is in our mutual interest to work this out. I'm glad that we held this hearing. I'm sure if we put our heads together we can find some method to solve the problem and perhaps avoid pulling the trigger. We should do that, but I don't know if we have to go so far as to take it off budget. But that is one of the alternatives. There are things which we should do.

This comment comes from one of the few members of this committee who opposed the trigger. I was not enthused about it because I thought it might end up like this. It seems to me we should sit down and do these things because they're right and not because we have built in a trigger so that we force ourselves to do it.

I look forward to trying to work out some of the problems and see if we couldn't resolve them.

Chairman PICKLE. Well, Mr. McArtor, you have said in this statement that this debate we're having creates an unnecessary debate which is not healthy for either the administration or the Congress. That is true.

You've got to try to help us work this out and give us leadership down there, because I think you are a man of vision and can do it.

And you, DOT, I hope you consider the use of the Airport Trust Fund and not try to just protect your budget, per se. And that may not be your intent, but that is the development.

And the Congress has got to work with it to set priority. We've got to make change not only to the formula, perhaps, but we have got to change this budget process somehow to allow these funds to be spent because the public is going to expect it.

So we will be in touch with you, and we thank you very much for coming this morning. I know this has been a lengthy type of hearing, but I think it ought to be put on the record, and we appreciate your cooperation. Thank you very much.

Mr. MCARTOR. Thank you, sir.

Ms. HALE. Thank you.

[Responses of DOT to questions submitted by Chairman Pickle follow:]

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September 13, 1988

The Honorable James H. Burnley
Secretary
U.S. Department of Transportation
400 Seventh Street, S.W.
Washington, D.C. 20590

Dear Mr. Secretary:

I want to express my appreciation to you for designating the Honorable Janet Hale and the Honorable T. Allan McArtor to represent the Department of Transportation at the Oversight Subcommittee's hearing on the operation and future status of the Airport and Airway Trust Fund. To complete our hearing record, I would appreciate their responses to the following questions by the close of business, Friday, September 30, 1988:

1. It has been suggested that the Trust Fund program should be changed to allow for different airport financing uses of the Trust Fund. Suggestions include interest-free, or low-interest, loans from the Trust Fund and allowing airports to begin projects before receiving Trust Fund financing with use of that financing to reimburse non-government financial sources.

   (a) Have you studied alternative uses of the Trust Fund to assist airport improvement?

   (b) If so, what are your findings and recommendations?

2. Although air travel delays have improved recently, according to some, delays have increased by 30% in recent years. There are 18 airports experiencing delays in excess of 20,000 hours.

   (a) How much is passenger travel increasing annually?

   (b) What has caused the recent decrease in delays?

   (c) How many airports will experience delays in excess of 20,000 hours 10 years from now?

   (d) What is being done to improve capacity at these airports, i.e. new runway construction?

3. The Federal Aviation Administration (FAA) is currently in the process of modernizing air traffic control equipment, as part of the National Airspace System (NAS) plan. The General Accounting Office has indicated that, due to delays in the modernization, the costs of this plan may well exceed $24 billion.

   (a) What is your current estimate of NAS plan costs and over what period of time will these costs extend?

   (b) FAA recently awarded a $3.6 billion contract to IBM as part of the NAS plan. Will this and the entire NAS (air traffic control modernization) plan be paid for from the Trust Fund?

   (c) The cost of the NAS plan has continued to increase since it was first released in 1981.

      (i) Based upon the current level of Trust Fund financing for FAA facilities and equipment, will you be able to pay for these increases and move forward with the NAS plan?

      (ii) If not, where will FAA cut back in order to pay for the increases in the costs?

   (d) Will the surplus balance in the Trust Fund be necessary to pay for the costs associated with the delays in implementation of the NAS plan?

4. The most significant change in the aviation system since deregulation seems to be the hub-and-spoke operations.

   (a) What does current FAA data indicate about the airlines' reliance on hub-and-spoke operations?

   (b) The Department of Transportation is responsible for reviewing mergers and unrealistic airline scheduling. What merger or scheduling actions have you taken in response to congestion due to hub-and-spoke operations?

5. What safety concerns does the FAA currently have under investigation, i.e. grounding planes due to age or the brake systems of certain aircraft? Are there any safety concerns with regard to FAA facilities and equipment which are under current FAA investigation?

6. What is the prognosis for the future of our aviation system with regard to safety and capacity?

7. As a result of the aviation tax reduction trigger passed last year, certain aviation excise taxes will be cut in half if certain Trust Fund appropriations are not 85% of their authorized levels for fiscal years 1988 and 1989. In fiscal year 1988, the Trust Fund appropriation was only 77% of the authorized level. The current House-passed version of the fiscal year 1989 appropriation is only 81% of the authorized level. Therefore, it appears that the aviation excise taxes will be reduced in 1990.

   (a) What are your projections for the uncommitted balance in the Airport and Airway Trust Fund, for the years 1990 - 1992 if the tax trigger goes into effect? Please provide the accompanying spending and revenue levels upon which the estimates are based.

   (b) How does a declining Trust Fund balance affect your prognosis for the future of our aviation system with regard to safety and with regard to delays?

   (c) Give specific examples of how a decrease in available Trust Fund revenues, due to an aviation tax reduction, will affect: 1) airport improvements, 2) air traffic control modernization, and 3) continued research and development.

8. Has the FAA conducted a comprehensive assessment of what airport and airway system needs will be ten, twenty or thirty years from now? If so, what are these needs and the associated costs?

Your attention to this matter is greatly appreciated. If any assistance is needed, please contact Susan Athy at 225-5522.

Sincerely,

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/sal

U.S. Department of Transportation
Office of the Secretary of Transportation

Assistant Secretary
for Budget and Programs

400 Seventh St., S.W.
Washington, D.C. 20590

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Ways and Means
Committee on Oversight

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your recent letter to Secretary Burnley requesting information on the operation and future status of the Airport and Airway Trust Fund. Responses to the questions are attached.

We appreciate the Committee's efforts in anticipating the critical funding needs of the Federal Aviation Administration to modernize and operate the system and the essential role of the Trust Fund in financing those needs.

Sincerely,

Janet Hale

Janet Hale

Attachment

Responses for the Record

1. It has been suggested that the Trust Fund program should be changed to allow for different airport financing uses of the Trust Fund. Suggestions include interest-free, or low-interest, loans from the Trust Fund and allowing airports to begin projects before receiving Trust Fund financing with use of that financing to reimburse non-government financial sources.

   (a) Have you studied alternative uses of the Trust Fund to assist airport development?

   (b) If so, what are your findings and recommendations?

Answers

1.(a) We analyzed various alternatives for use of Trust Fund resources to assist airport development as we developed the Administration's proposal for reauthorization of the airport grant program in 1988. One important step would be to restructure the Airport Improvement Program (AIP) formula to allow more flexibility in targeting funds for safety and capacity projects. Another alternative is to reduce the entitlement cap from its current level. We continue to review other options, including revolving loan funds to promote land banking by airports, revolving loan funds for airport construction, sale and lease back arrangements, and loan guarantee programs for airport construction bonds.

   (b) We submitted our recommendations to the Congress last year in our proposal to reauthorize FAA programs. We suggested a major restructuring of the AIP program to direct more of the Federal program to capacity projects that could produce systemwide capacity improvements. The concept of emphasizing capacity projects was adopted with the final legislation to a degree. We would like to work with the Congress to identify new financing alternatives that could help to address airport congestion.

2. Although air travel delays have improved recently, according to some, delays have increased by 30% in recent years. There are 18 airports experiencing delays in excess of 20,000 hours.

   (a) How much is passenger travel increasing annually?

   (b) What has caused the recent decrease in delays?

   (c) How many airports will experience delays in excess of 20,000 hours 10 years from now?

   (d) What is being done to improve capacity at these airports, i.e., new runway construction?

Answer

(a) U.S. air carrier passenger enplanements (including commuters) have increased by 52.2 percent (5.4 percent annually) between fiscal year (FY) 1980 and FY 1988. Enplanements increased by an average annual rate of 9.4 percent between FY 1984 and FY 1987, but the rate of increase slowed to an estimated 1.4 percent in FY 1988. Some increase in enplanements is due to the effects of hubbing and of less direct flights.

The latest FAA aviation forecasts (February 1988) have projected enplanement growth averaging 4.7 percent through the FY 1999 time period. With this growth in passenger traffic, commercial operations at FAA towers are projected to increase 2.8 percent annually from FY 1987 to FY 1999. The balance of the growth will be accommodated by larger aircraft and higher load factors.

(b) In FY 1988, air traffic control delays decreased 18.1 percent over FY 1987. The decrease in reportable air traffic delays is due to three key factors. First, nearly 70 percent of all delays are caused by adverse weather conditions which limit the capacity of the air traffic control system. Adverse weather reduces airport acceptance rates, increases workload on the enroute system, and requires rerouting of aircraft. On a systemwide basis, better aviation weather conditions have prevailed during the past several months than last year, resulting in fewer delays.

Second, improvements in air traffic control system equipment and procedures have increased capacity and provided for more effective planning and management of traffic during periods of adverse weather or excessive volume. Finally, in response to the Department of Transportation's continuing on-time performance investigations and on-time reporting rules, some of the peaks caused by airline scheduling practices have been reduced at certain airports and carriers have revised schedules to reflect more realistic enroute travel times.

(c) The Airport Capacity Enhancement Plan for 1988 identified 32 major airports that could have total air carrier delays in excess of 20,000 aircraft hours for each airport by 1996. This is based on the assumption that there will be no change in capacity between 1986 and 1996. That is, this projection does not include any capacity enhancement projects underway or major future development planned, such as a new Denver airport.

(d) The FAA has developed a comprehensive program to address the problem of airport capacity and aircraft delays. This program covers airport expansion, airspace control procedures, additional equipment and systems, and capacity planning studies.

Specifically, FAA is identifying probable future airport congestion points through computer modeling. FAA has organized task forces composed of airport operators, industry and local government representatives, and the FAA to study ways to improve airport capacity at specific airports, and studies have been completed or are underway at 17 airports around the country. FAA is also working to spur capacity-building projects under the airport grant program.

The construction of new airports and runways is one of the most effective means of enhancing capacity and reducing delays. FAA is working hard to encourage airport development. However, there is only one new major airport planned for the next decade, the proposed replacement for Denver Stapleton.

3. The Federal Aviation Administration (FAA) is currently in the process of modernizing air traffic control equipment, as part of the National Airspace System (NAS) plan. The General Accounting Office has indicated that, due to delays in the modernization, the costs of this plan may well exceed $24 billion.

   (a) What is your current estimate of NAS plan costs and over what period of time will these costs extend?

   (b) FAA recently awarded a $3.6 billion contract to IBM as part of the NAS plan. Will this and the entire NAS (air traffic control modernization) plan be paid for from the Trust Fund?

   (c) The cost of the NAS plan has continued to increase since it was first released in 1981.

      (i) Based upon the current level of Trust Fund financing for FAA facilities and equipment, will you be able to pay for these increases and move forward with the NAS plan?

      (ii) If not, where will FAA cut back in order to pay for the increases in the costs?

   (d) Will the surplus balance in the Trust Fund be necessary to pay for the costs associated with the delays in implementation of the NAS plan?

Answer

   (a) The cost of the NAS plan is estimated to be $15.8 billion, $12.2 billion from 1982-1992 and $3.6 billion from 1992 through the year 2000. Facilities and Equipment items not included in the NAS plan could bring the total needed in FAA's Facilities and Equipment account over this period to

$25 billion or more. These items include such projects as capital development for a new Denver Airport, fuel storage tanks, tower modernization and communication facility modernization.

(b) The Facilities and Equipment account is entirely funded from the Trust Fund. It is that account that supports implementation of the NAS plan, including the recent contract to IBM to develop the Advanced Automation System, the centerpiece of the NAS plan. Some maintenance and engineering support to the NAS plan are financed through the Operations account, which is only partially funded from the Trust Fund.

(c)(i) Funding levels for Facilities and Equipment as authorized in the Airport and Airway Safety and Capacity Expansion Act of 1987 are adequate to keep the NAS plan on schedule. Appropriation levels, however, have not been adequate to fund all NAS plan projects and keep them on schedule. Between 1982 and 1989, appropriations have been $1.4 billion below the President's request. In the future, funding for Facilities and Equipment will have to be at the President's budget request levels in order for the NAS plan to stay on schedule.

(c)(ii) If funding for Facilities and Equipment is not adequate, FAA would be required to delay new projects or to terminate or renegotiate contracts for ongoing projects.

(d) To carry out the NAS plan and other projects included in the Facilities and Equipment Program we estimate will result in a drawdown of the uncommitted balance in the Trust Fund beginning in 1990, even without imposition of the automatic tax reduction. Annual funding levels have always been projected to increase as contracts to procure equipment progressed, and your Committee properly took this into account in preserving existing user fees in the 1987 enactment. This fact and past underfunding by Congress are the primary reasons for increased annual funding at this point, not delays in the NAS plan.

4. The most significant change in the aviation system since deregulation seems to be the hub-and-spoke operations.

(a) What does current FAA data indicate about the airlines' reliance on hub-and-spoke operations?

(b) The Department of Transportation is responsible for reviewing mergers and unrealistic airline scheduling. What merger or scheduling actions have you taken in response to congestion due to hub-and-spoke operations?

Answer

(a) There is no indication that the airlines will change their marketing strategy from a hub-and-spoke system in the foreseeable future, and thus the high demand for FAA services will continue. New hub airports may be developed within the next several years to alleviate congestion at the existing hub airports and to continue to develop and consolidate market positions.

(b) During the last few years, the Department has reviewed 21 airline mergers. By law, the Department is required to approve a merger unless the merger is likely to substantially lessen competition or otherwise is not in the public interest. The underlying issue in the Department's review is whether the merger will give the combined carrier the power to raise prices above or reduce services below competitive levels. Congestion was not raised by any of the parties in any of the merger proceedings and therefore was not a factor.

Last year, the Department adopted a regulation which addressed unrealistic scheduling. The regulation requires all U.S. carriers with more than one percent of total domestic passenger revenues (currently 13 carriers) to report detailed daily flight information on their on-time performance to the Department and to the public through travel agents' computer reservation systems. The underlying philosophy of the regulation is that the market system will tend to reward the carriers which consistently report good on-time performance.

As a result, carriers have begun publishing more realistic departure and arrival schedules in order to minimize the number of reported delays. Since adoption of this regulation, there has been a substantial improvement in on-time performance, from the 40 to 50 percent in early 1987 to better than 80 percent at present. In addition, as a result of scheduling investigations, seven carriers have agreed to meet specific on-time performance criteria at various major, congested airports.

5. What safety concerns does the FAA currently have under investigation, i.e., grounding planes due to age or the brake systems of certain aircraft? Are there any safety concerns with regard to FAA facilities and equipment which are under current FAA investigation?

Answer

FAA is currently working with airframe manufacturers and the airline industry to define and resolve a number of issues involving the large number of aging aircraft in the air carrier fleet, including in-depth analysis of corrosion control, structural fatigue, and inspection procedures. In conjunction with the National Aeronautics and Space Administration, we are undertaking a research and development effort to assess the effect of automation on pilot proficiency.

In addition, we have recently completed a review of cockpit resource management and will shortly issue an advisory circular to all carriers. The Transportation Systems Center, in Cambridge, Massachusetts, is conducting a study for the FAA on current checklist design and cockpit management practices. This study will form the basis for discussions with the aviation community on how to develop cockpit checklists. Our Aircraft Certification Office has recently completed a study of how takeoff warning systems are designed, maintained, and operationally checked. New design and certification criteria will be developed during the next year.

With regard to facilities and equipment, FAA is currently performing a safety and efficiency review of Chicago O'Hare airport where a number of equipment issues have been identified. Action plans are being developed to address these issues.

6. What is the prognosis for the future of our aviation system with regard to safety and capacity?

Answer

Both U.S. commercial air carrier revenue passenger miles and airborne hours are forecasted to increase between 4 and 4.5 percent while revenue passenger miles for the commuter industry are forecasted to increase by nine percent through 1989. Accident and incident statistics are expected to continue their downward trend, notwithstanding these forecasted increases in aviation activity. Near midair collision reports are down 30 percent for FY 1988, the number of operational errors by controllers is down 15 percent, and the number of runway incursions is down 39 percent.

There are a number of initiatives that have been recently implemented or are planned in 1989, in addition to those discussed in question 2, which will further strengthen safety or enhance capacity. The installation of new HOST computers at all enroute centers, which was recently completed, will enable the national airspace system to handle increased traffic with even greater safety and efficiency; scheduled enhancements to our air traffic flow control system will enable us to determine the location of every

aircraft operating under Instrument Flight Rules (IFR); and the threat of near midair collisions will be reduced further when Phase I of the Mode C altitude reporting transponder rule becomes effective on July 1, 1989.

In addition, fire protection requirements for aircraft cabin, cargo, and baggage compartments will be strengthened; installation of advanced cockpit voice recorder/flight recorders will enhance safety analysis; the establishment of installation and use requirements for Traffic Alert and Collision Avoidance Systems (TCAS) will move us significantly closer to operational TCAS systems; and major revisions to aircrew training requirements will enhance pilot proficiency.

7. As a result of the aviation tax reduction trigger passed last year, certain aviation excise taxes will be cut in half if certain Trust Fund appropriations are not 85% of their authorized levels for FYs 1988 and 1989. In FY 1988, the Trust Fund appropriations were only 77% of the authorized level. The current House-passed version of the FY 1989 appropriation is only 81% of the authorized level. Therefore, it appears that the aviation excise taxes will be reduced in 1990.

   (a) What are your projections for the uncommitted balance in the Airport and Airway Trust Fund, for the years 1990-1992 if the tax trigger goes into effect? Please provide the accompanying spending and revenue levels upon which the estimates are based.

   (b) How does a declining Trust Fund balance affect your prognosis for the future of our aviation system with regard to safety and with regard to delays?

   (c) Give specific examples of how a decrease in available Trust Fund revenues, due to an aviation tax reduction will affect: 1) airport improvements, 2) air traffic control modernization, and 3) continued research and development.

Answer

   (a) If the tax reduction goes into effect in 1990, the ending uncommitted balance will be $3.8 billion in FY 1990, assuming for purposes of this analysis that the 1990 appropriated levels equal the authorized levels. This compares to an uncommitted balance of $6.4 billion at the end of FY 1989. Detailed spending and revenue levels are enclosed as Appendix A. Revenue and program expenditure levels for FY 1991 and FY 1992 are not shown because authorizing legislation to collect tax revenues and authorizations for Facilities and Equipment and Research programs do not extend beyond 1990.

(b) If declining Trust Fund revenues forced Congress to reduce FAA spending, FAA could be forced to take actions to limit operations to ensure safety. Failure to adequately fund NAS plan projects could defer the implementation of new safety benefits for the traveling public. With aviation activity forecast to increase by 36 percent by 2000, unless adequate resources continue to be provided to the National Airport and Airway System, growth in system capacity will be severely constrained and delays will increase substantially.

Currently, 18 major airports experience air carrier delay in excess of 20,000 hours per airport per year. As earlier noted, unless airport capacity is enhanced, 32 airports are projected to have in excess of 20,000 hours per year of air carrier delay by 1996. The Trust Fund revenues provide a stable and reliable source of funding for essential aviation needs and are critical to FAA's ability to maintain, modernize and operate the system.

(c) The activation of the tax trigger would lower revenues from aviation system users at a time when additional tax dollars will be most needed. By 1992, if the reduced tax level were retained, annual tax revenue would be reduced from $4.5 billion to $2.3 billion. FAA's budget is $6.4 billion in FY 1989 and is expected to increase in the future. Many of the National Airspace System plan projects are entering the implementation phase, and Trust Fund dollars will be needed to finance acquisition and installation. For example, the contract award for the Advanced Automation System requires a Trust Fund commitment of nearly $5 billion including the prime contract of $3.6 billion and the associated support work. The terminal Doppler weather radar system, which can detect the presence of windshear, could require up to $550 million.

Assuming continuation of the FY 1989 funding levels during the FYs 1990-92 time frame, airport capital development could amount to over $4 billion. Research, Engineering, and Development funding of nearly $500 million during the same period will continue work on the Traffic Alert and Collisions Avoidance System (TCAS), the Advanced Traffic Management and Automated Enroute Air Traffic control (AERA), and aviation security initiatives to detect explosives, flammable liquids, and non-metallic weapons.

A tax trigger would be counterproductive because it would reduce the aviation user fee at a time when it is needed to meet increasing costs. Rather we need to address the problem behind the surplus in the Trust Fund, which is the penalty provision.

The penalty provision has reduced the amount available for Trust Fund support of Operations when appropriations for airport grants, facilities and equipment and research fell short of authorized levels. The result has been that between 1982 and 1989, some $5.3 billion that Congress contemplated would come from the Trust Fund for Operations has instead been drawn from the General Fund. This amount will earn interest of $1.4 billion over the period. The combined amount resulting from the penalty, $6.7 billion, will exceed the estimated Trust Fund surplus at the end of FY1989 of $6.4 billion.

8. Has the FAA conducted a comprehensive assessment of what airport and airway system needs will be ten, twenty or thirty-years from now? If so, what are these needs and the associated costs?

Answer

As discussed in question 3, the airway system needs through the year 2000 are $25 billion, including modernization of the air traffic control system. Airport system needs and costs are addressed in the National Plan of Integrated Airport Systems (NPIAS), most recently published in November 1987, covering the period through 1995. The NPIAS indicates a ten-year assessment of airport development of $24 billion, much of which will be accomplished without Federal funding. The NPIAS includes airport improvements as well as new and replacement airports.

Airport system needs beyond the year 2000 are being reviewed in some detail. A recent study, Future Development of the U.S. Airport Network, completed by the Transportation Research Board, has identified a general need for optimizing the present airport system, and the need for new major commercial service airports. The needs have not been specifically quantified, and the costs of such development have not yet been estimated. The FAA has initiated a study plan which will better quantify needs and costs for airport system improvements which are needed into the twenty-first century.

The FAA is also in the initial stages of strategic planning to develop goals and strategies for the national aviation system, including airports and airways, through the year 2010. The strategic plan ultimately may include order-of-magnitude cost estimates, but such estimates will not be undertaken before FY 1990.

Appendix A

Airport and Airway Trust Fund
($ in millions)

	1989	1990
Estimated Beginning Uncommitted Balance	$5,703	$6,379
		Tax Reduction Effective 1/1/90
Estimated Revenues from Taxes	3,336	2,535
Estimated Interest	985	1,042
Program		
Airport Improvement Program		Authorizations
Contract Authority	1,600*	1,700
Obligation Limitation	(1,400)	(1,700)
Facilities and Equipment	1,384	2,191
Research	160	222
Operations-Trust Fund Share	471	2,057
NOAA	30	30
TOTAL	3,646	6,199
Estimated Ending Uncommitted Balance	6,379	3,757

* $100 million rescinded in FY 1989 Appropriations Act.

Chairman PICKLE. After that short panel we're going to ask the following individuals to come forward: James McCormick, vice president of the AOCI; Spencer Dickerson, representing the AAA Executives; James Landry, representing the Air Transport Association; and John Baker, representing the Aircraft Owners & Pilots Association.

Mr. James McCormick is vice president of the AOCI—Airport Operators Council International. Mr. McCormick, are you testifying in the place of Mr. Reilly?

Mr. MCCORMICK. Yes, sir.

Chairman PICKLE. OK. You will testify first.

Then we have Spencer Dickerson. Mr. Dickerson is the senior vice president of American Association of Airport Executives. Then James Landry, who is a frequent testifier here of late who is senior vice president and general counsel of the Air Transport Association. And then John Baker, representing the Aircraft Owners & Pilots Association.

We will start off then, Mr. McCormick, with your statement. Do we have your written testimony? Yes, we do.

Mr. MCCORMICK. I believe you do, sir.

Chairman PICKLE. Please proceed.

STATEMENT OF J. DONALD REILLY, EXECUTIVE DIRECTOR/SECRETARY GENERAL, PRESENTED BY JAMES D. McCORMICK, VICE PRESIDENT—ECONOMIC AFFAIRS, AIRPORT OPERATORS COUNCIL INTERNATIONAL

Mr. MCCORMICK. Good morning. I am Jim McCormick, vice president of Economic Affairs, the Airport Operators Council International, which represents the state and local governments that own and operate major airports served by scheduled air carriers in the United States and throughout the world.

I bring the regrets and apologies of Don Reilly, our executive director, who is not able to be here this morning.

We appreciate this opportunity to present our views on a matter critical to the future of the air transportation system—the operation of the airport and airway trust fund.

We commend you for holding——

Chairman PICKLE. Just a moment, please. We would like to ask you to try to summarize your statement to roughly 5 minutes. I don't want to cut in and make it short, but we have four individuals, and I would appreciate it if you could do that, each one of you. Now, all of your statements will appear in the record in their entirety.

Mr. MCCORMICK. Certainly. That will be fine.

Chairman PICKLE. Go right ahead.

Mr. MCCORMICK. The members of AOCI thank you, Mr. Chairman, and Committee Chairman Rostenkowski for extending the aviation user taxes and for adopting the trigger tax mechanism.

These user taxes are supposed to support the trust fund's capital programs—the airport improvement program, facilities and equipment, research and development—and presently generate over $3.5 billion annually.

With the annual revenues of that magnitude allegedly devoted to improving the aviation system, one has to wonder how our Nation's airports and airways system can be in such a state of crisis. The answer is simple: Federal spending from the aviation trust fund has not kept pace either with the available revenues nor the system's growing needs.

It is apparent to every air traveller that the system is bursting at the seams. This is alarming because congestion and delays at one major airport propagate throughout the country. Delays cost airlines and passengers about $4 billion each year, and yet each year the administration requests and the Congress appropriates less money for aviation programs than is authorized and needed.

Aviation programs were underfunded by nearly $2 billion over the last 5 years, while the trust fund surplus has swollen to nearly $6 billion.

After these frustrating experiences, we felt compelled to support the trigger mechanism when the program was reauthorized. As you know, aviation taxes will be reduced automatically if the programs are not funded at or near the full authorization levels.

AOCI supported the trigger tax, both to discourage cuts in airport spending to artificially make the Federal deficit smaller, and to ensure that travelers who pay those allegedly dedicated taxes will no longer be overtaxed and underserved.

However, aviation spending keeps getting cut. Total funding of the aviation programs in fiscal year 1988 was only three-quarters of the amount authorized. And the bulk of the cuts were made in the airport improvement program, which was cut $432 million, and in airport capacity research, which offers many opportunities for beating the causes of these delays.

Appropriations Committees will once again come up short for fiscal year 1989, thereby triggering a 50-percent reduction in aviation taxes during 1990.

Like Congressman Daub said, the trigger tax is not the answer to aviation funding problems. But, in fairness, it should be preserved. We should not tax users unless we spend the money for the purpose we told them we would. Period.

However, there is a basic question of how to address the system improvements that are needed. We know what must be done. Simply put, the remedies are to build new airports, build new runways, and use technology and better techniques to make airports as efficient as possible. This is why Federal research is needed.

While Austin and Denver have the most ambitious new airport programs, they are only representative of the tremendous airport infrastructure needs facing our communities. Airports need to spend nearly $30 billion over the next 5 years alone. The FAA even estimates that airport needs of $24.3 billion over 10 years in AIP eligible projects, 72 percent of which are for new capacity to enable airports to handle their growth.

Underfunding has adversely affected airport capacity, sir. Only $100 million is available for discretionary funds directed to capacity projects, one-third of what should have been available. The prospect of fiscal year 1989 is not much better.

The AIP program is not being allowed to provide the funding airports need. The new Denver Airport alone would be eligible for $1

billion in Federal grants. Austin's new airport would be eligible for almost $300 million. The FAA has a backlog of $4.5 billion in unfunded project applications.

Every major airport in this country has viable projects waiting that would help increase airport capacity, yet those airports will receive very little, if any, discretionary funding.

The airport funding candle is also being burned at both ends, sir.

The last point I'd like to make is that airport bond financing capabilities, which, as was pointed out earlier, provide about two-thirds of airport development needs, is being eroded, as well.

While we appreciate this committee's actions to preserve the tax exemption for airport bonds, since they are classified as private activity rather than public purpose they are subject to the alternative minimum tax, causing higher interest rates of up to 30 basis points so far that we've seen.

And we are somewhat distressed by the recent Supreme Court decision. We feel that airport bonds may be a target for future tax law tightening, which would only erode further the ability of airport sponsors to finance at the local level the airport capital expansion that is needed.

We urge you, Mr. Chairman, and the members of this committee to recognize the importance of tax-exempt financing to improve and expand our national air transportation system, and to not enact further Tax Code changes that would adversely affect airport financing abilities. The price and obstacles to building and expanding airports are far too high already.

In conclusion, the present air transportation crisis calls out for concerted action by local, State, and Federal governments. We ask you to help free the aviation trust fund and allow the funds to be fully spent to improve the system.

We must also put the trust fund surplus to productive use rather than allow it to lie fallow. AOCI recently endorsed the concept of creating a federal revolving loan program to help bridge the funding gap. AOCI is developing a specific revolving loan fund proposal for Congress to consider, and we will be pleased to share it with this committee.

We believe the revolving loan concept is an innovative approach that could provide a much-needed, self-perpetuating new source of capital assistance for airport development.

Mr. Chairman, we share your concerns about airport funding. We will be happy to work with you to devise legislative solutions to these problems. Thank you very much for your time.

I would be happy to answer any questions.

[The prepared statement of J. Donald Reilly, follows:]

STATEMENT OF J. DONALD REILLY, EXECUTIVE DIRECTOR OF THE AIRPORT OPERATORS COUNCIL INTERNATIONAL (AOCI)
BEFORE THE HOUSE WAYS AND MEANS SUBCOMMITTEE ON OVERSIGHT
AUGUST 11, 1988

Mr. Chairman and Members of the Subcommittee:

Good morning. I am J. Donald Reilly, Executive Director of the Airport Operators Council International (AOCI). AOCI represents the local, state and regional governmental bodies that own and operate the principal airports served by scheduled airlines in the U.S. and throughout the world. Our U.S. members enplane more than 90 percent of total domestic and virtually all international scheduled airline passenger and cargo traffic in the U.S.

We appreciate the opportunity to present our views on a matter of critical importance to the future of our air transportation system -- the operation of the Airport and Airway Trust Fund for improving the airports and airways system.

First, Mr.Chairman, AOCI would like to commend you, Chairman Rostenkowski and your colleagues on the Committee for extending the aviation trust fund excise taxes for three years with the trigger tax-reduction protection. As you know, these dedicated aviation user taxes were first established to support the trust fund's capital programs -- the airport improvement, facilities and equipment and research and development programs. Trust fund taxes generate more than $3.5 billion per year, and the eight percent passenger ticket tax generates about 88 percent of those revenues.

With annual revenues of that magnitude devoted exclusively to improving our nation's aviation system, one can only wonder how our airports and airway facilities can be in the state of crisis that they are today. It should be apparent to anyone who flies that the system is facing severe capacity shortages today which loom even more ominous in the very near future. The answer is quite simple: federal spending from the trust fund for aviation improvements has not kept pace with either the revenues that are available nor the system needs which are obvious and growing. Each year, the Administration requests and the Congress appropriates less money for aviation programs than was authorized by the same Administration and Congress. For example, under the previous five-year Airport and Airway Improvement Act, aviation trust fund programs were underfunded by nearly $2 billion, while the trust fund accumulated an uncommitted surplus of nearly $6 billion.

The Trigger Tax Should Be Preserved

After that frustrating experience, AOCI and others urged this Committee and the Congress, in reauthorizing the trust fund, to enact a trigger mechanism so that aviation taxes would be automatically reduced if the programs were not funded at or near the full authorization levels.

AOCI supported the trigger tax primarily for two reasons: (1) to reduce the incentive to make the federal budget deficit appear artificially smaller by cutting trust fund expenditures; and (2) to assure air passengers, shippers and the general and business aviation community -- the system users who pay those dedicated trust fund taxes -- that they would no longer be overtaxed and underserved.

However, it is apparent that the Administration and the Congress are still motivated to spend less than is needed on aviation programs, as evidenced by the fiscal 1988 and currently pending fiscal 1989 appropriations. Total funding of the AIP, F&E

and R&D programs in FY 1988 was $752 million below the authorization levels -- nearly a one-fourth reduction. The bulk of the cuts were made in the Airport Improvement Program ($432 million) and in airport capacity research & development, the heart of FAA's capacity enhancement program. The appropriations committees have struggled under difficult budgetary constraints to fund FAA programs for fiscal year 1989, and will once again come up short, somewhere between $170 million and $375 million below the $1.7 billion authorized for the Airport Improvement Program.

Even assuming that the House-Senate conferees adopt the highest funding level in either version for AIP, F&E and the R&D programs, the cumulative funding for both FY'88 and '89 will fall below the 85 percent of authorization threshold (see attachment), thus triggering a 50 percent reduction in aviation taxes for 1990.

We recognize that the trigger tax is not the answer to aviation funding problems, but we believe it should be preserved at least until we find a way to free the aviation trust fund from budgetary constraints and its unfair treatment within the unified federal budget process. In fairness to aviation taxpayers, we should adhere to the principle that trust fund taxes should not be fully collected if they are not being fully spent. Otherwise the public trust on which the trust fund was created is breached. Aviation users should not be forced to suffer "taxation without transportation."

While we do not look forward to the loss of revenues which could otherwise fund important airport capacity projects and other aviation system needs, we would rather see that occur than witness a further build-up of the already excessive trust fund surplus.

<u>The Cost of Congestion and Delays Vs. Building an Adequate Airport and Airway System</u>

However, that obviously begs the question of how we are to address and fund the system improvements we desperately need. The airport capacity problem is bad and getting worse. In its July 1988 report, <u>Policies for the Deregulated Airline Industry</u>, the Congressional Budget Office stated that "the major source of congestion is the airports themselves."

Consider these facts:

- In 1987, 450 million passengers were handled at U.S. airports. By the year 2000, those airports will be expected to handle over 800 million passengers.

- In 1986, 18 airports were "seriously congested", according to the FAA, each experiencing more than 20,000 hours of delays. Barring major improvements in capacity, 32 airports will become seriously congested by 1996, affecting 76 percent of all passengers.

This is an alarming prospect considering the ripple effect that congestion and delays at one major airport can cause throughout the system. Delays are costly: every 20,000 hours equates to an additional $32 million cost to airlines; the total cost of delays to airlines and passengers is presently estimated at $3-4 billion per year.

As a nation, we are paying a high price for an inadequate, highly congested air transportation system. Yet, we know what must be done. Simply put, the remedies are to:

(1) Build new airports -- Austin and Denver are planning the first major airports to be built in fourteen years, at a projected cost of $650 million (for Phase I) and $1.6

billion, respectively. At least three additional new major airports will also be needed.

(2) Build new runways -- nine of the 32 potentially congested airports have new runways under construction. Nineteen new runways are planned at the top 60 airports, at a cost of approximately $950 million, and more are needed.

(3) Use technology to make existing airports and runways as efficient as possible and to optimize the limited existing capacity. Employ a safe reduction of separation standards, and introduce automation to make best use of the available airspace and runways.

While Austin and Denver have the most ambitious, near term airport construction and expansion plans, they are only representative of the tremendous airport infrastructure needs facing other localities and our nation as a whole.

AOCI's forecast of airport capital development needs (1988-1992) shows a requirement of nearly $30 billion. The FAA's own National Plan of Integrated Airport Systems (NPIAS) estimates reveal similar needs of $24.3 billion over ten years in AIP-eligible airport projects, 72 percent of which is directly related to increasing airport capacity. The new Denver airport alone will be eligible for $1 billion in federal grants. The 30 busiest airports have project grant applications pending with FAA which total more than $1.7 billion, while the FAA now has a $4.5 billion backlog in unfunded project applications.

Underfunding of the Airport Improvement Program has adversely affected important capacity projects. One of the top priorities of the Airport & Airway Safety & Capacity Expansion Act of 1987, which reauthorized the trust fund programs, was to devote additional funding for airport projects that will increase systemwide capacity. As a result of the lower appropriations, however, the formula provided a meager $104 million in '89 discretionary funding for airport capacity, rather than some $300 million that would have been available if the $1.7 billion had been fully appropriated. With the pending FY'89 DOT Appropriations bill, we again face the prospect that limited funds will be available for important capacity projects, possibly as little as $133 million.

While the needs are clear, funding is not. We face a tremendous funding gap, given the present level of federal grant assistance. Austin and Denver have made great strides in overcoming the many political, environmental and other obstacles that face any local government seeking to build a new airport or expand an existing facility. But the current, underfunded AIP program is ill-equipped to provide the sustained and substantial funding they need. When communities are able to achieve local consensus in supporting airport expansions, the federal government should be a ready and willing partner to provide the planning, technical assistance and funding to help make the project happen.

FAA Administrator McArtor has shown great vision in identifying the need for new and expanded airports and has called for a bold initiative to attack the airport capacity problem. But he and the FAA can't do the job unless Congress gives the Administrator greater authority and freedom to make the FAA more effective, particularly by freeing the agency from budget constraints.

Airport Capacity Research Initiatives

One of my most fulfilling tasks has been in chairing the Industry Task Force on Airport Capacity Improvement and Delay Reduction. Established in 1982 at the request of then-

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Administrator Helms, the Task Force is comprised of representatives throughout the aviation industry and has identified innovative research and development that is needed to advance technological improvements at airports to get more capacity out of existing facilities. The Task Force has called attention to the inadequate funding being given to FAA's airport capacity R&D program and the lack of sufficient expert staffing within FAA.

For years since the release of the National Airspace System Plan, which the industry embraced almost totally, we have all known that the Plan does not do justice to the airport capacity problem. Specific proposals and recommendations of what must be done have been made by the most reputable industry leaders. Yet, the NAS Plan does not do enough to solve the airport and system capacity problem.

Much of the funding labelled "R&D" over the past several years has in fact been spent on the engineering design of the NAS Plan systems -- work that is needed and essential because the NAS Plan F&E was underfunded, but not R&D in any real sense. It is probably correct to say that for FY 1988, two-thirds of the R&D appropriation was spent for the design of the NAS Plan systems, and that of this year's request only about half will go towards real research and development.

Two examples of the benefits that can be achieved through airport capacity R&D:

1. For the year 2000, it is estimated that independent parallel runway Instrument Flight Rule (IFR) operations at just nine airports will show annual delay savings of 222,000 hours and a resulting cost savings of $357 million.

2. Similarly, reduced-minimums IFR approaches to converging runways at five airports will yield annual delay savings of 400,000 hours and a resulting annual cost savings of nearly $600 million.

From a broader perspective, we estimate technology can bring an average capacity gain of 30 percent. When one recognizes that every one percent of capacity gain yields about a five percent reduction in the cost of delay, it is a powerful incentive to move forward.

Recently, the Task Force urged the FAA to accelerate its present pace on airport capacity enhancement programs based on FAA cost and timetable estimates. The Task Force believes that $90 million per year over the next several years is needed to advance and begin implementation of the technological concepts it has recommended. Administrator McArtor has shown leadership in this long-neglected area, but he needs the support of the Congress. We are encouraged by both the House and Senate approving the minimum $25 million that is needed for airport capacity R&D in the FY'89 FAA Research & Development program. However, that is only the beginning and much more must be done.

National Airspace System Plan Modernization

Through fiscal year 1988, Congress appropriated $5.767 billion for Facilities & Equipment for the NAS Plan modernization, versus the $7.664 it had authorized -- a cumulative shortfall of $2 billion. As a result, the absolutely needed modernization has not proceeded as fast as it needs to.

The NAS Plan modernization is now less than what had been planned and promised when the modernization began in the early 1980s. This is due in some part to inadequate funding, but more importantly because the NAS plan has not grown and evolved to keep pace with an air transportation system which has grown dramatically. To some degree the reason is that the NAS Plan was initially touted as the monolithic permanent answer to aviation's

needs. Because of budget and political reasons, those responsible for the Plan failed to state the obvious: that as aviation changes, as the technology changes, and as we learn more, plans and programs must also evolve. That is by no means a slam at the NAS Plan, which we believe must go forward rapidly.

But we also recognize that needs have changed, that things usually cost more than we hope, and that it is naive to assert that we knew in 1982 all there was to know about all that would be needed. To cite two examples:

In the first NAS Plan there was a clear intent to move to real automation of the ATC system, with the first steps to take hold in about 1993. Those first steps now are anticipated for about 1999. Again, this is not a criticism of the FAA Advanced Automation System program, which must move forward rapidly to implementation as the essential base for further work, but a recognition that much more innovative work needs to be done, and that it will require additional R&D and F&E funding.

The second example concerns the work needed to increase airport capacity through technological means. As AOCI and the Industry Task Force on Airport Capacity Improvement and Delay Reduction have testified before, the NAS Plan contains little work on airport capacity, and virtually no F&E funds to actually implement the airport capacity gains that research and development can bring. If, as we believe, the work to achieve reduced spacings on parallel and converging IFR approaches succeeds, for example, the cost for the equipment needed to provide the capabilities at just 42 busy airports will be about $250 million -- a small investment in terms of the benefits expected, but nowhere to be seen in the FAA budget.

The Microwave Landing System (MLS) is a similar example. In spite of the unfortunate delays in production of initial MLS ground facilities, and a series of mistakes in bringing the system into the field, MLS is a major improvement in the safety, reliability, and capacity of our approach and landing system. FAA must proceed rapidly to demonstrate, in production equipment, the well-proven Category 2 and 3 all-weather capability and the procedures for flexible, broad MLS coverage for curved and segmented MLS approaches.

Most importantly, Congress should appropriate the funds to rapidly complete the nation-wide network of 1250 MLS ground stations. They are needed to gain the safety and capacity benefits MLS can provide to replace the venerable pre-World War II ILS system. The nation's investment in MLS is already more than $350 million. Further delay in reaping the substantial benefits from this system would seriously jeopardize that investment.

Local Airport Financing Capabilities

The airport funding candle is being burned at both ends by federal budget considerations. Not only has the federal share through the Airport Improvement Program been consistently underfunded, but local airport bond financing capabilities, which have provided about two-thirds of airport development costs, are being eroded as well.

The 1986 Tax Reform Act was the most recent federal assault on local and state tax-exempt bonds. Efforts by the Administration and Congress to increase federal revenues by restricting the issuance of tax-exempt airport bonds have made borrowing costs -- and consequently the cost of airport expansion projects -- more expensive.

Since airport bonds were inappropriately classified as "private activity", rather than "public purpose", they became

subject to the alternative minimum tax (AMT). In addition, tax reform placed further technical demands on issuers, such as restricted issuance costs and arbitrage rebate requirements. Furthermore, commercial banks are still not allowed to underwrite municipal securities. Although the effects of these changes are difficult to quantify, they have not been positive for airport issuers.

For example, airport bonds are less attractive to investors subject to the alternative minimum tax, who therefore demand higher interest rates to compensate them for this tax liability. Recently, airport bonds have been issued bearing interest rates up to 30 additional basis points because of the AMT, which raises the interest cost on the order of $30,000 per year for each $10 million in bonded indebtedness.

Although the total negative impact of the tax reform act is yet to be understood fully, we fear that airport bonds may be an early target for future tax law tightening. Such measures taken together will continue to erode the ability of airport sponsors to finance locally the airport capital expansion needed, at the same time as federal aid is severely restricted.

We are particularly distressed by the recent U.S. Supreme Court decision which removed the long-standing constitutional underpinnings for the tax exempt status of state and local bonds. We urge you, Mr. Chairman, and the members of this Committee, to recognize the importance of tax-exempt financing to improve and expand our national air transportation system, and to not enact further tax code changes that would adversely affect airport financing capabilities. Local and state government airport operators cannot afford any further tinkering with the tax code--the price and obstacles to building and expanding airports are far too high already.

Conclusion

In conclusion, Mr. Chairman, the present air transportation crisis calls out for concerted action by local, state and federal governments. The means and political will must be found to free the Aviation Trust Fund and allow the funds to be fully devoted to improving the system. Taking the Trust Fund out of the unified federal budget and out from under unrelated Gramm-Rudman budget constraints would help considerably, enabling projects to be funded on their merits. We also need to establish an effective and independent FAA, one that is not hampered in performing its responsibilities by bureaucratic, political and budgetary constraints.

We must also find creative ways to put the Trust Fund surplus to productive use, rather than allow it to lie fallow. AOCI recently endorsed the concept of establishing a federal Revolving Loan Fund (RLF) as a means of bridging the funding gap. The RLF could be capitalized by a portion of the trust fund surplus, provide loans for airport projects to supplement federal grants with a minimal impact on the federal budget, and could become a self-perpetuating source of capital assistance. AOCI is presently developing a specific revolving loan fund proposal for Congress to consider. We will be pleased to share our proposal with you, Mr. Chairman, and this Committee when it is developed. We believe the revolving loan concept is an innovative approach that holds great promise to help airports meet the tremendous funding needs which cannot be fully met by the grant program or through the bond market.

Thank you. I will be happy to answer any questions you may have.

Chairman PICKLE. Thank you, Mr. McCormick.

Now Mr. Dickerson, representing the American Association of Airport Executives. Mr. Dickerson.

STATEMENT OF CHARLES M. BARCLAY, EXECUTIVE VICE PRESIDENT, PRESENTED BY SPENCER DICKERSON, SENIOR VICE PRESIDENT, AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES

Mr. DICKERSON. Thank you, Mr. Chairman.

I am Spencer Dickerson, senior vice president of AAAE. Charles Barclay, our executive vice president, sends his regrets for not being able to be with us today.

Mr. Chairman, the Federal Government is often criticized for spending money it doesn't have. In civil aviation just the opposite is true. Uncle Sam doesn't spend the money it has already taxed away from air travelers under the guise of providing more airport and airway capacity.

Today you and this important subcommittee are providing us with the opportunity to state the plain facts as to the inadequacy of funding from the aviation trust fund for airport capital development, and for that we are extremely grateful.

I want to preface my remarks by saying that we view this subcommittee as a forum to express our frustrated feelings, not as a target of those feelings. Your efforts to support higher spending for airport improvements are very much appreciated.

The Federal Government, as an institution, and the Federal budget process, however, do deserve the ire of the Nation's travelling public. The Federal Government contributes to the capacity problem by not expanding airports and the air traffic control system as quickly as it should. Furthermore, the Federal budget process manipulates the aviation tax receipts in such a way that Members of Congress are forced between funding such programs as Coast Guard drug interdiction and the airport improvement program. We can certainly appreciate the difficult task given to Members of Congress when forced to choose between such important programs. But we cannot understand a budget system that allows over $6 billion to sit idle in the dedicated aviation trust fund when $3.5 billion of eligible airport safety and capacity improvement projects go unfunded. The users of our Nation's air transportation system were assured by Congress that the excise taxes would be invested for no other purpose other than for development and modernization of our air transportation system. Unfortunately, contrary to the intent of Congress when it established the aviation trust fund in 1970, today's fund is not providing nearly as much capacity as air travelers are paying for through taxes.

How much funding for airport capital development should the Federal Government generate through aviation user taxes? Last year the Congress, as you know, passed the AIP and Airway Safety and Capacity Expansion Act of 1987, and in doing so, authorized a 5-year, $8.7 billion program for airport grants to be financed by the continuation of the aviation user taxes.

Even though the new authorization law is acceptable to airport executives, a strong case can be made that the annual level of air-

port grant-in-aid assistance that Congress authorized to be spent is far too low to provide adequate ground capacity for today's air transport system, let along tomorrow's.

The airport system's tremendous safety and capacity needs are demonstrated by the FAA's national plan of integrated airport systems in which the agency estimates total eligible airport needs of $24.3 billion will be required over a 10-year period between 1986 and 1995.

While we believe the funding levels for the NPIAS plan are conservative, the report does demonstrate that airport capital development needs are real, and that the 1987 reauthorization law should be viewed as a minimum benchmark for determining adequacy of Federal airport funding.

Even those Congress authorizes, Congress has not made the funds available. In fiscal years 1988 and 1989 the budget process will make available only 80 percent of authorized airport funds. Aviation user taxes, however, will still be collected at 100 percent, as mandated by Congress. In short, aviation users will have contributed some $700 million in user fees for airport system development that will go unfunded.

That unspent $700 million, Mr. Chairman, could provide as much landing area capacity as adding another Chicago O'Hare or Dallas-Forth Worth Airport some place in the national system. Or, alternatively, adding 14 new runways at existing airports around the Nation to help reduce the $5 billion in passenger and air carrier delay costs suffered last year.

At the most obvious level, $700 million in tax levies has been taken out of the private sector of the economy and has not been used for its intended purposes. The air traveller, who ultimately pays the bulk of all aviation system costs, gets gouged by a Federal Government that does not honor its commitment.

Another serious implication of low federal spending is that needed airport projects that could be financed by private loans will be delayed until federal funds are available. Under existing law, if an airport sponsor begins a project with non-Federal funds, in most cases that sponsor cannot later apply for reimbursement from the AIP program to pay off its debt.

Privately financed projects become AIP-ineligible when begun and, as a result, many credit-worthy airport projects are unnecessarily delayed. These projects wait in the queue of FAA project perhaps for Federal financing to become available since construction undertaken in advance of a commitment to Federal aviation trust fund dollars renders most projects ineligible for later federal reimbursement.

Congress should change this law and allow all AIP-eligible projects that are undertaken with non-Federal financing to be eligible for reimbursement so that needed projects will begin as quickly as possible.

Mr. Chairman, the trigger tax provision that this committee developed has focused some needed attention on the underfunding issue. AAAE would, however, prefer full appropriations to tax reductions because airports across the Nation need the authorized funding if they are going to make any real progress on airport capacity expansion.

In an attempt to prevent the trigger tax reduction, AAAE will ask the new administration to send the 101st Congress a supplemental appropriations request for the remaining fiscal year 1988-89 funds. Such funds, if made available, could be used particularly for those major airport capacity projects such as the new Austin or Denver Airports.

We urge this subcommittee to support our supplemental appropriations request to the new President before deciding whether to modify your current and useful trigger tax provision. Full appropriations would satisfy the trigger mechanism and obviate the need to reduce current user tax rates.

Likewise, the Ways and Means Committee has been instrumental through the years in preserving access to the tax-exempt bond market for airport debt securities issued by governmental sponsors for aviation system capacity. In the first half of this calendar year, for example, $1.25 billion of tax-exempt bonds were issued by State and local governmental airport sponsors for airport modernization—almost a 200-percent increase over the same period last year.

Without the support of the committee during the Tax Reform Act of 1986 to preserve tax-exemption for public-use airport facilities, the Federal Government could have established yet another road block to more aviation safety and airport capacity. We urge retention of this important provision.

Mr. Chairman, we also hope that the Ways and Means Committee will support combined aviation industry efforts before the National Economic Commission and the next Congress to get legislated improvements in the budget process to protect aviation programs financed by aviation user taxes from cutbacks of the kinds we have stated today. While we are not federal budget experts, we do believe that changes outlined in our prepared statement will improve the budget process.

Again, Mr. Chairman, thank you for the opportunity to be here today. I would be glad to answer any questions you may have at the end of the panel.

[The prepared statement of Charles Barclay follows:]

TESTIMONY OF CHARLES M. BARCLAY, A.A.E.
EXCUTIVE VICE PRESIDENT OF THE
AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES
BEFORE THE HOUSE WAYS AND MEANS SUBCOMMITTEE ON OVERSIGHT
AUGUST 11, 1988

I AM CHARLES BARCLAY, EXECUTIVE VICE PRESIDENT OF THE AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES (AAAE). AAAE IS THE LARGEST PROFESSIONAL ORGANIZATION FOR AIRPORT EXECUTIVES, REPRESENTING OVER 1300 AIRPORT MANAGEMENT PERSONNEL. OUR MEMBERSHIP IS TRULY *REPRESENTATIVE OF AIRPORT MANAGEMENT THROUGHOUT THE NATION. IT IS* NEITHER "BIG AIRPORT" NOR "SMALL AIRPORT" ORIENTED, AS IT HAS WITHIN ITS MEMBERSHIP THE EXECUTIVES OF LARGE AND MEDIUM SIZE AIRPORTS AS WELL AS HUNDREDS OF MANAGERS FROM SMALLER AIRPORTS -- MANY OF WHICH ARE USED EXCLUSIVELY BY GENERAL AVIATION OR REGIONAL AIRLINES.

MR. CHAIRMAN, THE FEDERAL GOVERNMENT IS OFTEN CRITICIZED FOR SPENDING MONEY IT DOESN'T HAVE. IN CIVIL AVIATION, JUST THE OPPOSITE IS TRUE. UNCLE SAM DOESN'T SPEND THE MONEY IT HAS ALREADY TAXED AWAY FROM AIR TRAVELERS UNDER THE GUISE OF PROVIDING MORE AIRPORT AND AIRWAY CAPACITY. TODAY YOU AND THIS IMPORTANT SUBCOMMITTEE ARE PROVIDING US WITH THE OPPORTUNITY TO STATE THE PLAIN FACTS AS TO THE INADEQUACY OF FUNDING FROM THE AVIATION TRUST FUND FOR AIRPORT CAPITAL DEVELOPMENT, AND FOR THAT, WE ARE EXTREMELY GRATEFUL.

I WANT TO PREFACE MY REMARKS BY SAYING THAT WE VIEW THIS SUBCOMMITTEE AS A FORUM TO EXPRESS OUR FRUSTRATED FEELINGS, NOT AS A TARGET OF THOSE FEELINGS. YOUR EFFORTS TO SUPPORT HIGHER SPENDING FOR AIRPORT IMPROVEMENTS ARE VERY MUCH APPRECIATED.

THE FEDERAL GOVERNMENT AS AN INSTITUTION AND THE FEDERAL BUDGET PROCESS, HOWEVER, DO DESERVE THE IRE OF THE NATION'S TRAVELING PUBLIC. THE FEDERAL GOVERNMENT CONTRIBUTES TO THE CAPACITY PROBLEM BY NOT EXPANDING AIRPORTS AND THE AIR TRAFFIC CONTROL SYSTEM AS QUICKLY AS IT SHOULD AND THE FEDERAL BUDGET PROCESS MANIPULATES THE AVIATION TAX RECEIPTS IN SUCH A WAY THAT MEMBERS OF CONGRESS ARE FORCED BETWEEN FUNDING SUCH PROGRAMS AS COAST GUARD DRUG INTERDICTION AND THE AIRPORT IMPROVEMENT PROGRAM. WE CAN CERTAINLY APPRECIATE THE DIFFICULT TASK GIVEN TO MEMBERS OF CONGRESS WHEN FORCED TO CHOOSE BETWEEN SUCH IMPORTANT PROGRAMS. BUT WE CAN NOT UNDERSTAND A BUDGET SYSTEM THAT ALLOWS OVER $6 BILLION TO SIT IDLE IN THE DEDICATED AVIATION TRUST FUND WHEN $3.5 BILLION ELIGIBLE AIRPORT SAFETY AND CAPACITY IMPROVEMENT PROJECTS GO UNFUNDED. THE USERS OF OUR NATION'S AIR TRANSPORTATION SYSTEM WERE ASSURED BY CONGRESS THAT THE EXCISE TAXES, COLLECTED EACH TIME THEY FLY, WOULD BE INVESTED FOR NO OTHER PURPOSE OTHER THAN FOR DEVELOPMENT AND MODERNIZATION OF OUR AIR TRANSPORTATION SYSTEM. UNFORTUNATELY, CONTRARY TO THE INTENT OF CONGRESS WHEN IT ESTABLISHED IN 1970 A "HIGHWAY TRUST FUND TYPE OF SEGREGATED FINANCING AND FUNDING MECHANISM", TODAY'S AVIATION TRUST FUND IS NOT PROVIDING NEARLY AS MUCH AIRPORT CAPACITY AS AIR TRAVELERS ARE PAYING FOR THROUGH THEIR TAXES.

<u>FACT ONE: AIRPORT AND AIRWAY AUTHORIZATION LAW ESTABLISHES A MINIMUM BENCHMARK FOR DETERMINING ADEQUACY OF FEDERAL AIRPORT FUNDING.</u>

HOW MUCH FUNDING FOR AIRPORT CAPITAL DEVELOPMENT SHOULD THE FEDERAL GOVERNMENT GENERATE THROUGH AVIATION USER TAXES? LAST YEAR, THE CONGRESS PASSED THE AIRPORT AND AIRWAY SAFETY AND CAPACITY EXPANSION ACT OF 1987 AND IN DOING SO, AUTHORIZED A FIVE-YEAR, $8.7 BILLION PROGRAM FOR AIRPORT GRANTS TO BE FINANCED BY THE CONTINUATION OF THE AVIATION USER TAXES, PRIMARILY THE 8 PERCENT AIRLINE TICKET TAX. EVEN THOUGH THE NEW AUTHORIZATION LAW IS ACCEPTABLE TO AIRPORT EXECUTIVES, A STRONG CASE CAN BE MADE THAT THE ANNUAL LEVEL OF AIRPORT GRANT-IN-AID ASSISTANCE THAT CONGRESS AUTHORIZED TO BE SPENT IS FAR TOO LOW TO PROVIDE ADEQUATE GROUND CAPACITY FOR TODAY'S AIR TRANSPORT SYSTEM, LET ALONE TOMORROW'S. THE

AIRPORT SYSTEM'S TREMENDOUS SAFETY AND CAPACITY NEEDS ARE DEMONSTRATED BY A FEDERAL AVIATION ADMINISTRATION (FAA) REPORT TITLED THE "NATIONAL PLAN OF INTEGRATED AIRPORT SYSTEMS (NPIAS)", IN WHICH THE FAA ESTIMATES TOTAL ELIGIBLE AIRPORT NEEDS OF $24.3 BILLION WILL BE REQUIRED OVER A TEN-YEAR PERIOD BETWEEN 1986 -1995.

ACCORDING TO THE FAA, 72 PERCENT OF TOTAL DEVELOPMENT IS RELATED TO INCREASING CAPACITY IN THE AIRPORT SYSTEM TO HANDLE GROWING PASSENGER VOLUMES AND AIRCRAFT OPERATIONS. THE NEXT 17 PERCENT IN REQUIRED AIRPORT IMPROVEMENTS IS ATTRIBUTABLE TO BRINGING EXISTING AIRPORTS UP TO CURRENT DESIGN STANDARDS AND THE REMAINING 11 PERCENT IS NEEDED JUST TO MAINTAIN THE EXISTING SYSTEM. WHILE WE BELIEVE THE FUNDING LEVELS FOR THE NPIAS PLAN ARE CONSERVATIVE, THE REPORT DOES DEMONSTRATE THAT AIRPORT CAPITAL DEVELOPMENT NEEDS ARE REAL AND THAT THE 1987 AUTHORIZATION LAW SHOULD BE VIEWED AS A MINIMUM BENCHMARK FOR DETERMINING ADEQUACY OF FEDERAL AIRPORT FUNDING.

FACT TWO: AVIATION TRUST FUND REVENUES MADE AVAILABLE FOR AIRPORT DEVELOPMENT HAVE BEEN SUBSTANTIALLY LESS THAN THE AUTHORIZED LEVELS.

IN FISCAL YEARS 1988-89, THE FIRST TWO YEARS OF THE CURRENT AUTHORIZATION, THE BUDGET PROCESS WILL MAKE AVAILABLE ONLY 80 PERCENT OF AUTHORIZED AIRPORT FUNDS (FY'88 - $1.27 BILLION AND AN ESTIMATED $1.43 BILLION FOR FY'89 - THE LATTER SOON TO BE DECIDED BY HOUSE/SENATE APPROPRIATIONS CONFERENCE). AVIATION USER TAXES HOWEVER, WILL STILL BE COLLECTED AT 100 PERCENT AS MANDATED BY CONGRESS. IN SHORT, AVIATION USERS WILL HAVE CONTRIBUTED SOME $700 MILLION IN USER FEES FOR AIRPORT SYSTEM DEVELOPMENT THAT WILL GO UNFUNDED.

THAT UNSPENT $700 MILLION, MR. CHAIRMAN, COULD PROVIDE AS MUCH LANDING AREA CAPACITY AS ADDING ANOTHER CHICAGO O'HARE AIRPORT OR AN ATLANTA HARTSFIELD AIRPORT OR A DALLAS-FT. WORTH AIRPORT SOME PLACE IN THE NATIONAL SYSTEM. OR, ALTERNATIVELY, ADDING FOURTEEN NEW RUNWAYS AT EXISTING AIRPORTS AROUND THE NATION TO HELP REDUCE THE $5 BILLION IN PASSENGER AND AIR CARRIER DELAY COSTS SUFFERED LAST YEAR.

THE RECENT TREND IN CUTTING BACK AIRPORT GRANTS IS AN OMINOUS ONE SINCE DURING THE PRIOR AUTHORIZATION, APPROVED BY CONGRESS FOR FISCAL YEARS 1982-87, AIRPORTS RECEIVED GRANTS-IN-AID TOTALLING SOME 91 PERCENT OF THE AUTHORIZED LEVEL.

FACT THREE: INADEQUATE FEDERAL AIRPORT PROGRAM FUNDING HAS SERIOUS IMPLICATIONS.

AT THE MOST OBVIOUS LEVEL, $700 MILLION IN TAX LEVIES HAS BEEN TAKEN OUT OF THE PRIVATE SECTOR OF THE ECONOMY AND HAS NOT BEEN USED FOR ITS INTENDED PURPOSE. AS A RESULT, EITHER $700 MILLION IN AIRPORT PROJECTS GO UNFUNDED OR AIR TRAVELLERS WILL HAVE TO PAY FOR THOSE PROJECTS A SECOND TIME THROUGH HIGHER AIR FARES TO PAY FOR INCREASED LANDING FEES. THE AIR TRAVELLER, WHO ULTIMATELY PAYS THE BULK OF ALL AVIATION SYSTEM COSTS, GETS GOUGED BY A FEDERAL GOVERNMENT THAT DOES NOT HONOR ITS COMMITMENT.

ANOTHER SERIOUS IMPLICATION OF LOW FEDERAL SPENDING IS THAT NEEDED AIRPORT PROJECTS THAT COULD BE FINANCED BY PRIVATE LOANS GET DELAYED UNTIL FEDERAL FUNDS ARE AVAILABLE. UNDER EXISTING LAW, IF AN AIRPORT SPONSOR (USUALLY OWNED AND OPERATED BY A LOCAL GOVERNMENT) BEGINS A PROJECT WITH NON-FEDERAL FUNDS, IN MOST CASES THAT SPONSOR CANNOT LATER APPLY FOR REIMBURSEMENT FROM THE AIRPORT IMPROVEMENT PROGRAM (AIP) TO PAY OFF ITS DEBT. PRIVATELY FINANCED PROJECTS BECOME AIP-INELIGIBLE WHEN BEGUN AND, AS A RESULT, MANY CREDIT WORTHY AIRPORT PROJECTS ARE UNNECESSARILY DELAYED. THESE PROJECTS WAIT IN THE QUEUE OF FAA PROJECT PREAPPLICATIONS FOR FEDERAL FINANCING TO BECOME AVAILABLE SINCE CONSTRUCTION UNDERTAKEN IN ADVANCE OF A COMMITMENT OF FEDERAL AVIATION TRUST FUND DOLLARS RENDERS MOST PROJECTS INELIGIBLE FOR LATER FEDERAL REIMBURSEMENT. CONGRESS SHOULD CHANGE THIS LAW AND ALLOW ALL AIP-ELIGIBLE PROJECTS THAT ARE UNDERTAKEN WITH NON-FEDERAL FINANCING TO BE ELIGIBLE FOR

REIMBURSEMENT SO THAT NEEDED PROJECTS WILL BE BEGUN AS QUICKLY AS POSSIBLE.

FACT FOUR: THERE ARE SOLUTIONS TO PREVENT UNDERFUNDING OF THE AIRPORT IMPROVEMENT PROGRAM.

MR. CHAIRMAN, THE "TRIGGER TAX" PROVISION THAT THIS COMMITTEE DEVELOPED -- THREATENING TO REDUCE AVIATION USER TAX RATES IN 1990 IF FY 1988-89 APPROPRIATIONS IS LESS THAN 85 PERCENT OF AUTHORIZED AIRPORT AND AIRWAY PROGRAM FUNDS -- HAS FOCUSED SOME NEEDED ATTENTION ON THE UNDERFUNDING ISSUE. AAAE WOULD, HOWEVER, PREFER FULL APPROPRIATIONS TO TAX REDUCTIONS BECAUSE AIRPORTS ACROSS THE NATION NEED THE AUTHORIZED FUNDING IF THEY ARE GOING TO MAKE ANY REAL PROGRESS ON AIRPORT CAPACITY EXPANSION.

IN AN ATTEMPT TO PREVENT THE TRIGGER TAX REDUCTION, AAAE WILL ASK THE NEW ADMINISTRATION TO SEND THE 101ST CONGRESS A SUPPLEMENTAL APPROPRIATIONS REQUEST FOR THE REMAINING FY 1988-89 AIP FUNDS. SUCH FUNDS, IF MADE AVAILABLE BY CONGRESS, COULD BE USED PARTICULARLY FOR THOSE MAJOR AIRPORT CAPACITY PROJECTS, SUCH AS THE NEW AUSTIN OR DENVER AIRPORT. SUCH A SUPPLEMENTAL APPROPRIATIONS WOULD ALSO FREE UP ADDITIONAL FUNDS FOR TRADITIONAL SAFETY, SECURITY AND MODERNIZATION PROJECTS. WE URGE THIS SUBCOMMITTEE TO SUPPORT OUR SUPPLEMENTAL APPROPRIATIONS REQUEST TO THE NEW PRESIDENT BEFORE DECIDING WHETHER TO MODIFY YOUR CURRENT AND HELPFUL "TRIGGER TAX" PROVISION. FULL APPROPRIATIONS WOULD SATISFY THE TRIGGER MECHANISM AND OBVIATE THE NEED TO REDUCE CURRENT USER TAX RATES.

LIKEWISE, THE WAYS AND MEANS COMMITTEE HAS BEEN INSTRUMENTAL THROUGH THE YEARS IN PRESERVING ACCESS TO THE TAX-EXEMPT BOND MARKET FOR AIRPORT DEBT SECURITIES ISSUED BY GOVERNMENTAL SPONSORS FOR AVIATION SYSTEM CAPACITY. IN THE FIRST HALF OF THIS CALENDAR YEAR, FOR EXAMPLE, $1.25 BILLION OF TAX-EXEMPT BONDS WERE ISSUED BY STATE AND LOCAL GOVERNMENTAL AIRPORT SPONSORS FOR AIRPORT MODERNIZATION, ALMOST A 200% INCREASE OVER THE SAME PERIOD LAST YEAR. WITHOUT THE SUPPORT OF THE COMMITTEE DURING THE TAX REFORM ACT OF 1986 TO PRESERVE TAX-EXEMPTION FOR PUBLIC-USE AIRPORT FACILITIES, THE FEDERAL GOVERNMENT COULD HAVE ESTABLISHED YET ANOTHER ROAD BLOCK TO MORE AVIATION SAFETY AND AIRPORT CAPACITY. WE URGE RETENTION OF THIS IMPORTANT PROVISION.

MR. CHAIRMAN, WE ALSO HOPE THAT THE WAYS AND MEANS COMMITTEE WILL SUPPORT COMBINED AVIATION INDUSTRY EFFORTS BEFORE THE NATIONAL ECONOMIC COMMISSION AND THE NEXT CONGRESS TO GET LEGISLATED IMPROVEMENTS IN THE BUDGET PROCESS TO PROTECT AVIATION PROGRAMS FINANCED BY AVIATION USER TAXES FROM CUTBACKS OF THE KINDS WE HAVE STATED TODAY. WHILE WE ARE NOT FEDERAL BUDGET EXPERTS, WE DO BELIEVE THE FOLLOWING CHANGES WILL IMPROVE THE BUDGET PROCESS:

1. ESTABLISH WITHIN THE U.S. GENERAL TREASURY A "FEDERAL AVIATION ADMINISTRATION ACCOUNT" TO BE MADE UP OF ALL FUNDS AVAILABLE TO THE FAA FOR ITS OBLIGATION, INCLUDING EXISTING BALANCES AND FUTURE RECEIPTS OF THE AVIATION TRUST FUND.

2. EXCLUDE THIS FAA ACCOUNT FROM THE BASELINE USED TO DETERMINE THE FEDERAL BUDGET DEFICIT UNDER THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974 AND THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985. FUNDS INCLUDED IN THIS FAA ACCOUNT WOULD NOT BE SUBJECT TO SEQUESTRATION UNDER THE 1985 ACT.

3. REQUIRE THAT THE FAA ADMINISTRATOR ANNUALLY PREPARE THE FAA BUDGET TO BE TRANSMITTED TO THE OFFICE OF MANAGEMENT AND BUDGET (OMB) AND SUBSEQUENTLY TRANSMITTED TO THE CONGRESS WITHOUT REVISION.

4. BEGINNING WITH FISCAL YEAR 1990, FUNDS ALLOCATED TO THE FAA ACCOUNT WOULD BE GIVEN A SEPARATE ALLOCATION UNDER SECTION 302(a) AND 302(b) OF THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974. THEREBY PROVIDING A GUARANTEE THAT SUCH FUNDS INCLUDED IN THE FAA ACCOUNT COULD NOT BE ALLOCATED OR APPROPRIATED TO ANY OTHER FEDERAL PROGRAM.

5. BEGINNING WITH FISCAL YEAR 1990, CONGRESS SHOULD APPROVE A BIENNIAL BUDGET PROCESS, ALLOWING FOR A TWO YEAR APPROPRIATIONS.

AGAIN, MR. CHAIRMAN, AAAE SHARES YOUR CONCERNS ABOUT THE CURRENT AND FUTURE OPERATIONS OF THE AIRPORT IMPROVEMENT PROGRAM AND LOOKS FORWARD TO THE OPPORTUNITY TO WORK WITH THIS SUBCOMMITTEE TO FIND A LEGISLATIVE APPROACH THAT WILL GET FULL CONGRESSIONAL APPROPRIATIONS FOR NEEDED AIRPORT CAPACITY. THANK YOU FOR YOUR TIME AND INTEREST AND I WOULD BE PLEASED TO RESPOND TO ANY QUESTIONS.

Chairman PICKLE. Well, we thank you, Mr. Dickerson. Before recognizing the next gentleman, I think you are probably on target when you say we may have to consider a supplemental appropriation this next year in order to keep that trigger from going into effect. A supplemental appropriation could enable airports like Austin, or Denver, or any other city that is planning a major undertaking, to move forward. I think that step is probably going to be inevitable.

Now we'll ask Mr. Landry if you will proceed, sir.

STATEMENT OF JAMES E. LANDRY, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, AIR TRANSPORT ASSOCIATION OF AMERICA, ACCOMPANIED BY JAMES T. MURPHY, VICE PRESIDENT, AIRSPACE AND AIRPORTS

Mr. LANDRY. Thank you, Mr. Chairman.

Chairman PICKLE. Are you going to talk about customs again, or are you going to talk about this?

Mr. LANDRY. It does strike me as rather ironic, Mr. Chairman, that I have been here twice this week talking about user fees that are just not flowing the way they are intended to flow and being dedicated to provide the resources that the people are paying for. It is twice in 1 week.

I am accompanied here this morning, Mr. Chairman, by Jim Murphy, ATA's vice president, Airspace and Airports.

It is our pleasure to appear before you to discuss our chronic inability to take the user supplied revenues collected for aviation system development and deliver them to their intended purpose.

A few minutes ago Mr. McArtor alluded to the spectacular growth in aviation since airline economic deregulation and our equal expectations for the future. I'd observe that in a very real sense economic deregulation of the airlines was left incomplete. It is this fact which is at the root of aviation's problems today.

Economic deregulation freed market forces in the private sector, but there were no corresponding adjustments on the Government-public sector. The airlines must now fill consumer demand immediately, whereas the FAA is constrained by budgetary and funding processes that are now ill-suited to the unique demands placed upon the agency and the entire aviation system.

What can be done? As the Comptroller General has advocated, the time has come for the government to take a serious look at true budgetary reform and to stop simply applying Band-Aids to a patient requiring major surgery.

The current system's emphasis on a single number cash-based deficit picture and the effort to reduce that number has led to a budgetary shell game with trust fund assets. The cash orientation of the budget process and its failure to reflect capital investment on a realistic basis increases the difficulty in congressional decisionmaking regarding the merits of short-term operational spending and long-term investment.

We urge that serious consideration be given to proposals fundamentally reforming the aviation infrastructure funding to correct for this failure.

The airlines supported the trigger tax as an incentive to force the level of appropriations closer to authorized amounts. But the trigger will not, by itself, achieve funding levels necessary to fix the system.

The currently anticipated underfunding of the FAA by $1.2 billion in the first 2 years of the present reauthorization demonstrates that much more must be done.

In the all-important AIP—airport improvement program—for example, we expect a funding shortfall on the order of $600 million for just fiscal year 1988 and fiscal year 1989. That underfunding represents more than seven brand-new 10,000-foot, fully instrumented air carrier runways which cannot be built.

The AIP already has a $3.5 billion project application backlog. This means that there are terminal, ramp, taxiway, and runway construction projects on hold. Crucial capacity improvements such as parallel taxiways, aircraft holding pads, and high-speed angled exits remain on the drawing boards.

That, again, highlights the need for budget reforms, as the GAO suggested, which will differentiate between operating expenses and capital investments, and between trust funds versus nontrust funds, as they shift away from single-year budgeting and appropriations to a multiyear cycle. This will finally provide an opportunity to evaluate the merits of long-term system investments versus short-term consumption spending. FAA funding provides an excellent starting point for testing the GAO approach.

The FAA F&E account has also been underfunded. In order to accommodate the cumulative shortfall in appropriations compared to authorizations, FAA has been forced to reduce budget requests for many projects and has stretched out schedules, causing delays in these and related projects.

All of these delays create the need for even higher funding levels in the out-years of the system-wide modernization effort. In fiscal year 1988 the FAA had to absorb a $269 million appropriation shortfall below authorization levels in the F&E account.

As the committee can see, a rather significant balloon of deferred spending is being created. As more and more projects are deferred that balloon will only grow, forcing even tougher budget and program decisions in the future. What FAA really needs for fiscal year 1989 is an F&E appropriation of $2 billion—unfortunately, optimistically assuming the House-passed funding levels, it will receive only $1.48 billion, which is $240 million below the authorized level.

RE&D has been cut, as well. For the period fiscal year 1982 through fiscal year 1987 this account was underfunded by $73 million. The fiscal year 1988 funding shortfall exceeded $47 million from the existing $200 million authorized. For fiscal year 1989 the shortfall will be slightly smaller, but that must be considered in the light of the more than 25 crucial RE&D projects which have been delayed in the recent past.

Clearly we cannot expect to improve safety and get ahead of system deficiencies until we spend adequate sums to understand these problems and their possible solutions.

As to airport capacity research and development, the authorization target of $25 million per year set and approved by Congress in

the 1987 reauthorization was, in fiscal year 1988, allocated less than two-thirds of that amount.

For fiscal year 1989 we are working to get a fully-funded account, but anticipating no correction of last year's $8 million shortfall.

As you can see, while the automatic tax reduction trigger has arguably helped advance FAA funding, it has not fully accomplished the goal for which it was designed.

We now see the FAA underfunded by a likely $1.2 billion below authorization levels in just 2 years—an amount that must be coupled with the additional $2 billion underfunding of the previous 5 years. More ominously, the balloon payments being pushed in the various accounts become more unrealistic each year.

The trigger, we now know, is likely to go off. While we support that modest maintenance of faith with the aviation consumer, we would hope that in the near future serious corrective measures will be undertaken by the Congress to fully fund the system properly and permanently.

We clearly cannot return to the failed methods of the past where trust fund collections were hoarded. We should not break faith with the aviation consumer, as some might suggest, by amending the tax reduction requirement.

What we clearly must do, as a Nation, is demand a continuous stream of funding at levels that are consistent with congressionally approved authorizations. We will urge the new administration to seek the funds necessary to permit the FAA to catch up with demand.

At the same time, we intend to push for permanent budgetary and funding reform for the FAA consistent with the principles articulated by the Comptroller General which I mentioned earlier. This would include: establishment of special accounts for FAA funds; elimination of incentives to hoard the airport and airway trust fund for deficit calculation purposes; and multiyear budgeting and appropriations cycles.

Again, we would like to thank the committee for looking into this critical matter and for your invitation to us to appear before you today to present our views and suggestions. We would welcome your input and support in our efforts to accomplish the changes I have outlined.

I would be happy to answer any questions that you might have, Mr. Chairman.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Landry follows:]

STATEMENT OF JAMES E. LANDRY, SENIOR VICE PRESIDENT AND GENERAL COUNSEL, AIR TRANSPORT ASSOCIATION OF AMERICA

Mr. Chairman, members of the Committee, my name is Jim Landry and I am Senior Vice President and General Counsel of the Air Transport Association of America. It is my pleasure to appear before you this morning to discuss what has become one of the most confounding issues perenially confronting the Congress, the Administration, the airlines and ultimately the American people. I am, of course, referring to our chronic inability, as a nation, to deliver the revenues collected for system development and improvement from air transportation users to their intended purpose.

As you know, last year the Congress was deliberating this very issue. ATA was then seeking, and is still seeking, to address this problem in a comprehensive manner with a program for major reform of the FAA's funding, procurement, personnel and management systems. One important step in the right direction was taken by the Congress last year in the context of the reauthorization of the aviation consumer taxes which constitute the Airport and Airway Trust Fund.

Congress passed a tax reduction mechanism, called the trigger tax, in order to assure that a balance would be maintained between Trust Fund receipts and disbursements. If, at the end of the first two years of the reauthorization cycle, the level of appropriations for the FAA F&E, RE&D and AIP accounts does not reach at least eighty-five percent of authorization levels-- the trigger will go off and the aviation taxes will be cut in half. Barring currently unforeseen appropriations developments, that reduction trigger which we support, will go off.

It is difficult to understand why, on the one hand, information about inadequacies in our national aviation system is well know when, on the other hand, a surplus of $7 billion has accumulated in the Aviation Trust Fund but not been made available to fix those inadequacies. The money to pay for expansion and improvement of the aviation infrastructure is there, consumers have paid for needed improvements-- but whether that money will be expended for those purposes, is unclear.

As you know, the growth in aviation in the years since airline economic deregulation has been spectacular. The numbers of passengers enplaned have almost doubled-- from 240 million in 1977 to nearly 450 million last year, with 750 million projected by the year 2000. The Council of Economic Advisers has calculated that the aviation consumer has saved in excess of $100 billion in airfares over this period Today, more than ninety percent are flying at reduced fares.

In a very real sense, however, economic deregulation of the airlines was left incomplete. It is this fact which is at the root of aviation's problems today.

The air transportation system includes not only the airlines and the airports but also the FAA-- the system overseer and air traffic controller. It is through the FAA, working with the airports and airlines, that the infrastructure is designed, built and controlled. Economic deregulation freed market forces in the private sector but there were no corresponding adjustments on the government-public sector. Airlines must now fill consumer demand immediately, whereas the FAA is constrained by budgetary and funding processes that are now ill-suited to the unique demands placed upon the agency and the entire aviation system.

BUDGET REFORM

What can be done? A possible solution is to change the budgetary process. As the Comptroller General has advocated, the time has come for the government to take a serious look at true budgetary reform-- and to stop simply applying 'Band-aids' to a patient requiring major surgery.' We must, as the Comptroller General said, "improve the vitality of the normal legislative process in the budget area" and not respond with "mechanistic and possibly unrealistic" solutions.

The current system's emphasis on a "single number" cash based deficit picture and the effort to reduce that number has led to the budgetary shell game with trust fund assets. As a result the Congress has been unable to make budget policy choices which give due regard to infrastructure investment and the future flow of real benefits which they produce. The cash orientation of the budget process and its failure to reflect capital investment on a realistic basis increases the difficulty in Congressional decisionmaking regarding the merits of short-term operational spending and long-term investment.

We urge that serious consideration be given to proposals fundamentally reforming the aviation infrastructure funding process and FAA budget as the solution to the present problems involving the failure to spend the Aviation Trust Fund resources for needed system improvements and expansion.

The airlines supported the trigger tax as an incentive to force the level of appropriations closer to authorized amounts. But, the trigger will not, by itself achieve funding levels necessary to fix the system.

Assuming (perhaps unrealistically) funding in Fiscal Year 1989 at the levels now contained in the House-passed Department of Transportation appropriation (H.R. 4794), we see that capital investment in the aviation infrastructure will likely be underfunded by more than $1.2 billion dollars since the trigger reduction mechanism was created just last year. This likely underfunding of $1.2 billion means that important national air transportation safety and capacity projects will not be funded.

AIRPORT IMPROVEMENT PROGRAM

In the all-important Airport Improvement Program (AIP), for example, we expect a funding shortfall on the order of $600 million for just FY88 and FY89. This underfunding represents more than seven brand-new 10,000-foot, fully instrumented air carrier runways which cannot be built.

The AIP already has a $3.5 billion project application backlog. This means that there are terminal, ramp, taxiway and runway construction projects on hold. Crucial capacity improvements such as parallel taxiways, aircraft holding pads, and high-speed angled exits remain on the drawing boards. At current funding levels, FAA is left with little discretion to target our nation's most critical and correctable capacity and noise problems, depriving the Administrator of the financial capability to influence airport development decisions in locations where the agency recognizes the most critical need.

It is important that budgetary reforms differentiate between operating expenses and capital investments, and between trust funds versus non-trust funds, and that they shift away from single year budgeting and appropriations to a multi-year cycle, in order to provide an opportunity to better evaluate the merits of long-term system investments versus short-term consumption spending. FAA funding provides an excellent starting point for testing the GAO approach of moving away from

a cash based, unified budget with its bias against long term capital investment.

FACILITIES AND EQUIPMENT

The FAA F&E account is the nuts and bolts of the FAA. It too, has been underfunded. In order to accommodate the cumulative shortfall in appropriations compared to authorizations, FAA has been forced to reduce budget requests for many projects and has stretched out schedules, causing delays in these and related projects. All of these delays create the need for even higher funding levels in the out-years of the system-wide modernization effort. In FY88 the FAA had to absorb a $269 million appropriation shortfall below authorization levels in the F&E account.

As the Committee can see, a rather significant "balloon" of deferred spending is being created in the F&E account. As more and more projects are deferred this balloon will only grow, forcing even tougher budget and program decisions in the future. What FAA really needs for FY89 is an F&E appropriation of $2 billion-- unfortunately, optimistically assuming the House-passed funding levels, it will receive only $1.48 billion, which is $240 million below the authorized level.

RESEARCH, ENGINEERING AND DEVELOPMENT

RE&D has been cut as well. For the period FY[illegible] through FY87 this account was underfunded by $74 million. [illegible]he FY88 funding shortfall exceeded $47 million from the existing $200 million authorized. For FY89, the shortfall will be slightly smaller but that is in the light of more than 25 crucial RE&D projects which have been delayed in the recent past. Clearly, we cannot expect to improve safety and get ahead of system deficiencies until we spend adequate sums to understand those problems and their possible solutions.

Airport Capacity Research and Development, which is the key to achieving higher levels of safety and better utilization of existing facilities, has also been underfunded. The authorization target of $25 million per year set and approved by Congress in the 1987 reauthorization was, in FY88, allocated less than two-thirds of that amount. For FY89 we are working to get a fully funded account, but anticipating no correction of last year's $8 million shortfall. By FY90 the balloon payments due in other accounts will likewise impose significant pressures to divert these funds.

We believe that in the RE&D area substantial corrective action must be undertaken beginning with a cohesive and responsive National Aviation Research Plan. Such a plan would utilize both FAA and industry resources to project up to a fifteen year RE&D program to define programs considered essential to insure continued capacity, safety and efficiency; review and evaluate emerging technologies; forecast civil aviation needs and otherwise promote the highest degree of safety in air travel.

We also intend to continue to work to focus FAA attention and resources on human factors research, including a priority human factors work program. In addition, we are seeking to highlight the need for an expanded FAA program to better understand the issue of the integrity of aging airframes. This program would include research on Non-Destructive Testing techniques and methods, human factors aspects of inspection tasks and additional fatigue testing.

CONCLUSION

As you can see, while the automatic tax reduction trigger

has arguably helped advance FAA funding, it has not fully accomplished the goal for which it was designed. We now see the FAA underfunded by a likely $1.2 billion below authorization levels in just two years-- an amount that must be coupled with the additional $2 billion underfunding of the previous five years. More ominously, the balloon payments being pushed in the various accounts become more unrealistic each year.

The trigger, we now know, is likely to go off. While we welcome and support that modest maintenance of faith with the aviation consumer, we would hope that in the near future, serious corrective measures will be undertaken by the Congress to fully fund the system properly and permanently.

We clearly cannot return to the failed methods of the past where trust fund collections were hoarded. We should not break faith with the aviation consumer, as some might suggest, by amending the tax reduction requirement. What we clearly must do, as a nation, is demand a continuous stream of funding at levels that are consistent with congressionally approved authorizations. We will urge the new Administration to seek the funds necessary to permit the FAA to catch up with demand.

Improved funding to more rapidly advance the terminal automation program and to expedite the provision of new controller displays in the enroute air traffic control facilities would provide an immediate critical benefit. This action can and should be undertaken at the first opportunity on a cooperative basis with IBM now that the Advanced Automation System contract has been awarded. We intend to pursue these and other enhanced funding levels and would welcome the support of this committee in our endeavors.

At the same time, we intend to push for permanent budgetary and funding reform for the FAA consistent with the principles articulated by the Comptroller General which I mentioned earlier. This would include: establishment of special accounts for FAA funds; elimination of incentives to hoard the Airport and Airway Trust Fund for deficit calculation purposes; and multi-year budgeting and appropriations cycles.

Again, we would like to thank the Committee for looking into this critical matter and we would welcome your input and support in our efforts to accomplish the changes I have outlined.

Chairman PICKLE. Thank you, Mr. Landry.

We will now call upon Mr. Baker, who is representing the Aircraft Owners & Pilots Association.

STATEMENT OF JOHN L. BAKER, PRESIDENT, AIRCRAFT OWNERS & PILOTS ASSOCIATION

Mr. BAKER. Thank you, Mr. Chairman. We appreciate the opportunity to come up. Obviously we subscribe to everything that you have heard from the user side of this dialog this morning.

I, personally, have quite a strong interest in seeing the trust remain in the trust fund in the sense that I was in the Government and sold the concept to the industry in 1972.

The way it has been handled in recent years pretty clearly has weakened that public trust as far as we are concerned. The surplus is unconscionable in that we are in a period of dynamic growth in the industry and the needs are simply not being met. And the area where it is most egregious obviously has to do with airports.

If, indeed, we don't get airport capacity built, the billions of dollars that are being spent on an airways modernization are dollars wasted because we are runway constrained now and we are going to be more runway constrained in the future, or we are going to lose the benefit of aviation in terms of dramatic expansion with the price reduction that makes aviation available to a broader cross-section of the population.

Obviously we are a strong supporter of the trigger tax—we were at the time it was enacted and we believe in it now—as we are of the penalty provision. I think the last 7½ or 8 years has demonstrated to us the efficacy of that requirement, because while the DOT/FAA performance has been miserable in the recent time period, it would have been worse had that provision not been in the bill.

OMB and DOT seek to attempt to rewrite the bill in their interpretation of what they are urging both this committee and the appropriations and authorizing committees.

It was the intent at the time the legislation was drafted and passed that there would be public participation in funding of aviation, but that the user would not be burdened with the entire cost because the benefit runs across the entire society.

For them to continually, through the mechanism of devious, requests coming to the Congress attempting to thwart the intent of the Congress is inappropriate. Beyond that, I find it singularly offensive to hear them blast the Congress for poor funding performance.

The performance that has been bad has not been from either the authorizing or the appropriating committees. The performance that has been bad is mismanagement of our finances at the Federal level through the administration and through the requests coming up from the administration, because—oftentimes I think by design—they distort the request to the point where Congress simply could not accept it, and as a result will not fund it as requested.

I think the second hard reality in that regard is that F&E funding is not as grieviously underfunded as you would be lead to be-

lieve. The simple hard reality is that the FAA has not been able to perform at a rate in terms of development of equipment, development of the system, to justify greater funding.

I did note with some interest that you congratulated them for increasing the amount of money spent. Mr. Chairman, there was never a question in my mind they could increase the amount of money spent. The question is: what have they bought with it?

GAO has given us a terribly alarming alert. The $11.4 billion program which this Congress authorized in 1982 is now a $22 billion program and we haven't bought any of the expensive stuff yet. Nothing is happening that is positive.

But, if we don't get adequate funding for airports, if we don't provide some stimulus from the national level to the community to expand the airport, we aren't going to solve the problem in any circumstance. We simply are going to be constrained by a lack of airport capacity.

There was a public survey referred to by Mr. Daub which was released yesterday which we had done, and it was an attempt on our part to find out what the American nonpilot public believes about aviation. As he categorized, there is a concern with safety. There is a concern with congestion. And there is a strong national will to see expansion of this system rather than constraint which is now being preached in this administration and by some of the major cities such as Boston.

Constraint does not represent progress, because it simply is going to mean large sections of this country are going to become second-class citizens.

And Austin, for instance, in the money they are investing in the airport may well be spending for naught if, indeed, you can't access the hub airports out of a community like Austin.

The only hope for the future in terms of the national interest regarding air transportation is to see some legislative vehicle put in place which will require funding. Obviously we support going off budget if it is doable. If, indeed, it is not doable—and I have serious question whether it is in the sense that the Budget Committee will continue to be aggressively opposed—then I believe that it is incumbent upon your committee, Mr. Chairman, and the authorizing committee to structure some other vehicle which will get us where we have to go.

We appreciate, again, your interest in this issue, and stand ready to respond.

[The prepared statement of Mr. Baker follows:]

Statement of John L. Baker
President
Aircraft Owners and Pilots Association

Mr. Chairman, I am John Baker, President of the Aircraft Owners and Pilots Association. Our organization represents the aviation interests of 270,000 members who fly general aviation aircraft for business and personal transportation. General Aviation is an important component of this country's air transportation system. It includes 98 percent of the registered aircraft and, in 1986, accounted for more than 34 million flight hours.

Through a tax on aviation fuel, all active general aviation pilots contribute to the Aviation Trust Fund. For that reason, and because general aviation pilots must have available to them adequate facilities and services to operate safely and efficiently, our membership has a strong interest in the disposition of Trust Fund monies.

CURRENT DEFICIENCIES

In fact, there is little doubt that the development of our air transportation system is vital to all Americans. Not only is air travel a common and necessary means of conducting business, general aviation aircraft are used in utility roles including air ambulance, agricultural application and small package delivery. Every American depends, in some way or another, on air transportation. Air transportation, in turn, depends on the continued development of an adequate support system.

Unfortunately, the system we have in place is simply failing to meet current demand. This fact is supported by both hard statistics and public opinion. Statistically, almost 20 percent of all airline flights arrived more than 15 minutes late in the month of June. And June was a good month.

This situation has not gone unnoticed by the American public. In a recent national survey of attitudes toward air travel, 82 percent of Americans view the safety of air travel today as a serious problem. Eighty-nine percent feel that airport congestion is serious, and that same majority regards flight delays as a serious problem. So, as you can see and hear, public frustration is demanding a major commitment to overhaul the national air transportation system. By air transportation system, I mean airspace design, airport enhancement and the air traffic control system, all outlining the major concern--safety. The system's inability to accommodate today's demand begins on the ground, where there is insufficient concrete, and continues in the air, where controllers are limited in their ability to handle the traffic load due to the limitation of the aging equipment now in use. These problems have combined to limit the current air transportation system's inability to accommodate today's air travel needs.

Unless corrected, this problem will continue to compound itself, resulting in severe, if not irreparable, damage to the national economy.

RECOMMENDATIONS

If there is a bright side to this situation, it involves the fact that there is money on deposit to upgrade the system. This money came from taxes on aviation fuel, airline tickets and other aviation-related commerce. In other words, the people who use the system are contributing to its development and expansion.

Unfortunately, that money is not being used for its intended purpose. Currently, there are over ten-and-a-half billion dollars on deposit in the trust fund. The Trust Fund's intended use as a capital development pool for the airway and airport system has been supplanted by its current use as ballast for the federal budget deficit. Meanwhile, the system users, pilots and passengers alike, who contributed to this fund in order to ensure that an adequate air transportation system remained available to them are suffering from the delays and safety compromises inherent in a neglected system. If the system is in need of repair and there is money in place to repair it, the next step is readily apparent. We need to invest in our air transportation system.

AOPA believes that the trigger mechanism now in place will ensure that these funds are used as originally intended. In fact, we applaud the Ways and Means Committee for its initiative in designing such a protective mechanism. At the same time, we feel the incentive value of this trigger is far greater than its actual implementation.

Instead of allowing the trigger to assume control of the airway and airport funding process, we should set priorities for the investment of trust fund money. We must force the expenditure of Aviation Trust Fund revenues so that aviation user fees are used for improved aviation initiatives instead of budget manipulation.

Funding for airport development has to be high on the priority list. The severe shortage of runway space that exists in this country has already motivated some short-sighted people in the aviation industry to seek ways to constrain air travel.

A good example is occurring in Boston, where the Massachusetts Port Authority (MASSPORT) has increased general aviation landing fees at Boston's Logan Airport by as much as 500 percent. In discouraging general aviation operations at Logan, MASSPORT is jeopardizing the opportunity for new jobs and the potential for economic development that ride with business persons and entrepreneurs on board general aviation aircraft.

Public officials may have adopted a business mentality from the private sector, but they do not behave as responsible businessmen. The ability to water at the public trough seems to exacerbate a tendency to make choices and commitments no sound private business would make. The image of a nationwide system designed in the image of Logan to restrict rather than accommodate this country's air transportation needs is a most frightening picture. We must devote our attention instead to making runway supply meet aviation's demand.

In addition to new runways, many of this country's airports need new taxiways to expedite the flow of traffic to and from the runways. And to safely move aircraft, people and equipment in the vicinity of airport terminals, ramp and airport parking areas need to be expanded. Other needs include airport lighting and marking, snow removal equipment and other equipment necessary for airport operations.

FUTURE RECOMMENDATIONS

There should be a reasonable level of funding for research and development. In recent years, the level of funding in this area has been inadequate to develop the innovative systems and technology needed to increase system capacity and safety.

There should be a planned approach to the funding and acquisition of modern facilities and equipment. Although Congress has consistently appropriated funds sufficient to accomplish that goal, this money has been spent on unnecessary, incompatible and low-quality equipment. One example of the administration's emphasis on expensive gadgets rather than necessary hardware is the Microwave Landing System, which has yet to prove its value as a replacement for existing Instrument Landing Systems.

Today's airport and airway needs have been stacking up for some time. It should have been clear to planners that, when the airlines were deregulated in 1978, the weight of increased competition would have to be carried by the system.

The national air transportation system and its users have suffered from a loss of public confidence and efficiency due to the public's exposure to the decline in service associated with the air traffic controller's strike, airport and airway modernization delays, airline mergers, and the lack of a clear national policy.

The time has come for the system to catch up with demand. And given the extent of the problems we now face, it seems clear that we must take a well-planned, targeted approach to developing capacity in the system to meet current and future demand for air travel.

SOLUTION-NATIONAL AVIATION POLICY

I am deeply concerned about the worsening condition of our air transportation system. We, as a nation cannot afford to accept these developments or continue on this road. It is imperative as a nation, that we provide for the benefit of its citizens the safest and most effective aviation system in the world.

It is clearly in the national interest to provide and develop an aviation transportation system that meets both current demand, as well as anticipated future growth requirements while continuing advancements in safety and modernization. An integrated national policy must precede successful deployment of an adequate supply of facilities, equipment and personnel to meet access and capacity demands for the future.

A national aviation policy is our only solution to our current and future deteriorating air transportation system.

This policy must be based on the following principles:

- It is in the public interest that the aviation transportation system provide efficient movement of goods and passengers throughout the nation with its concomitant economic, social and cutural benefits. This system is essential in the competitive foundation of the nation's and the world economies and must be recognized as such.

- Access to the system be made available to all citizens with recognition given to all types of user demand on a balanced basis.

- Capacity be made available to efficiently serve public demand and to meet the future projected growth in aviation.

- Environmental impacts be recognized and balanced with the benefits that our transportation system provide.

- National priorities and planning must be established to support and maintain the United States worldwide leadership in aviation transportation and technology.

- The National Policy should respect airports for what they are--a national resource.

But, until such a comprehensive approach is taken with air transportation system, we have to make use of the reaources available in the Airport and Airway Trust Fund. The money currently held hostage by the Office of Management and Budget should be put to work increasing system capacity and improving safety. By doing so, we will be investing in our nation's economy and our nation's future.

Mr. Chairman, this concludes my prepared remarks. Additional information is included in the attachment to my testimony. I will be pleased to answer any questions you or other members of the committee may have concerning my testimony.

Table #1

Federal Aviation Administration

Summary of FY 1989 Budget

Program	Congressional Authorization	Administration Request	House Appropriation	Senate Appropriation
Headquarters	-	37,057	36,460	37,000
Operations	1,822,000	3,454,000	3,410,000	3,435,000
Facilities & Equipment	1,730,000	1,600,000	1,486,000	1,543,060 (1)
Research, Eng. & Development	215,000	155,000	160,000	160,000
Grants-in-aid for Airports (2)	1,700,000	1,200,000	1,530,000	1,325,000
Other	-	988	988	988
TOTAL		6,447,045	6,623,448	6,501,378

(1) Includes $250,000,000 in carryover balances

(2) Limitation on obligations

Appendix-Appropriations Views

TRUST FUND PROGRAMS

In late 1987, the Congress authorized $3.65 billion in expenditures from the Airport and Airway Trust Fund for FAA in FY 1989, yet the Administration's request is for only $2.95 billion. The Administration has proposed reducing expenditures of user-contributed, "on deposit" dollars by $500 million in airport improvement funding to build additional capacity; $140 million in facilities and equipment to modernize the air traffic control system; and $60 million in research and development for future technology needs.

In place of funding these programs for capacity and modernization, the Administration is requesting nearly $3.5 billion in FAA operations funds. Placed in context, this request is revealing. The Administration is requesting more funding for management and administration than for capital investment in capacity development, modernized equipment, and research. We believe these priorities are reversed. Other than the funds for additional controller staffing, this planned operations spending offers little prospect for improving the performance of the airspace system.

Embedded in the $3.5 billion operations request is a near doubling of the contribution from the user-tax-funded trust fund from $800 million to $1.5 billion. This raid on the trust fund, which was intended to be a capital development savings account is unconscionable. The Congress must uphold its trust fund penalty provision limiting disbursements for operations and deny the Administration's request to "waive" the limits on trust fund disbursements.

AIRPORT IMPROVEMENT PROGRAM

There are an estimated $4 billion in backlogged grant requests to fund airport development. There are also nearly $7 billion of uncommitted user taxes "on deposit" in the trust fund. While it is necessary to spend much of the trust fund on new NAS plan equipment, the Administration has proposed to spend only $1.6 billion on equipment, and most of those funds will be replaced by FY 89 tax contributions flowing into the fund.

In addition, the congressionally mandated National Plan of Integrated Airport Systems (NPIAS) has identified an annual need of almost $2.5 billion for the next ten years to fund development at only 3,000 of the nation's nearly 6,000 public-use landing facilities. With user tax dollars on deposit and federally identified grant requests on file, what can be the excuse for an Administration request in AIP airport development funds below both the congressionally authorized level and the FAA specified need? The requested level of only $1.2 billion completely ignores the realities of current system congestion, delays and denied service.

Reportedly, DOT has cut the AIP request by $500 million from $1.7 to $1.2 billion because they were "unhappy with the amounts appropriated for AIP last year." Unfortunately, this kind of political gamesmanship invites a solution of place-naming $1.7 billion of airport improvements in legislation.

With the sole exception of DOT, it is abundantly clear to everyone in the industry that our nation's airports infrastructure must be expanded to serve increased demand. Since its inception, this Administration has engaged in ostrich-like behavior, maintaining that local communities must take the individual, but somehow complementary, collective action, to fund and implement an integrated system of national airports serving national transportation needs. The national transportation systems that preceded aviation, the railroad, canals and interstate highway systems were not and could not have been built with such an arcane policy--and a national airport system efficiently linking major metropolitan areas, both to themselves and to outlying, less populated communities, certainly will not be either. Lately, FAA has proposed that the grant entitlement formula be changed to allocate more funds to capacity enhancement through increased funding for relievers. This would be accomplished by reducing commercial service entitlements from 49.5% to 40%. We support this proposal because many commercial-service airports can be fully self-supporting as a result of revenue from parking, concessions and other fees, while reliever airports do not yet have the same revenue development potential:

The practical result of our current apportionment formula is paradoxical. When a commercial-service hub is proposed for establishment, it is recognized that hubbing, by its nature, raises the enplanement count dramatically and, therefore, qualifies an airport for millions in entitlement funds. This results in automatically sponsoring the strangulation of capacity in the airspace system since hubs are economically efficient for the airlines but an efficiency disaster for the ATC system by causing peaks in traffic demand and surges in capacity consumption. We believe the hubbing phenomenon has proceeded far enough, and it is time to limit subsidies that exacerbate the capacity and access shortages confronting pilots and passengers at large urban airports. Until our capacity problems are solved, all trust fund expenditures should be limited to airside improvement of runways and operating areas. Once again, this is an area where current priorities are not in line with the needs of the system as it evolves under deregulation.

FACILITIES AND EQUIPMENT

The Administration has requested $1.6 billion to purchase equipment for the ongoing national airspace modernization. This is an increase of $500 million for 1988 and mirrors the $500 million reduction requested in AIP funding. While we support modernization of the air traffic system, FAA has proposed the acquisition of some equipment such as MLS that is vigorously opposed by the user community and is under severe questioning by GAO and this Committee. We believe the Administration will not be able to spend the additional $500 million in FY 1989 and that even if it could, some of the equipment, such as MLS, should not be purchased.

Our position is that the difference between the FY 89 appropriated F&E level and the congressionally authorized F&E level of $1.73 billion should be transferred to the FY 1989 AIP appropriations and added directly to the planned appropriation level.

If the users are not going to receive the modernized air traffic equipment needed in FY 1989 due to NAS program delays, then available trust fund deposits should be immediately applied to the backlog of requests for airport development. In addition, the Congress must enforce the 50% limit on trust fund transfers for operations when the lower F&E, as well as AIP appropriations, are enacted.

There are specific F&E expenditures on NAS Plan programs that FAA has managed well. The deployment of new HOST computers, a rededication to ILS installations and the emerging ASR-9 radar replacement have all proceeded well, and FAA deserves recognition for these successful programs. However, there are some NAS programs that continue to be mismanaged and appear to have a life of their own as they wander through the implementation process.

RESEARCH, ENGINEERING AND DEVELOPMENT (RE&D)

During an era when the technology challenges facing FAA are accelerating and the stakes for the deployment of technology are at their peak, the Administration has requested $155 million in RE&D funds compared to a 1988 appropriation of $153 million and a congressionally authorized level of $215 million. With its request, the FAA is essentially ignoring its responsibilities to develop prototype navigation, weather, noise reduction and capacity technologies. Of the requested funds, ATC- and TCAS-related RE&D represent 78% of the expenditures, leaving only 22% for equally critical needs. We know that FAA requested many "millions" of dollars more in RE&D funds, reflecting the will of Congress, but OMB chopped the request to $155 million for mere budget reasons.

The Development and Logistics branch of the FAA has the greatest single interest in the RE&D projects but is certainly not the only such office. All operating branches and some staff branches have significant amounts of RE&D requirements that suffer from the lack of a central coordinating office. The current fragmentation of these efforts has created inefficiencies in the overall effort. While we are not encouraged by the DOT-proposed FAA reorganization, it may address such a coordinating and management effort. Regardless, rapid action should be taken to examine this problem and devise a solution.

Chairman PICKLE. Thank you, Mr. Baker, very much.

Now, we have another vote on. I'd like to talk with the panel, though, and I would like to call a recess for approximately 10 minutes. Can each of you stay? All right. Then in order for us to have further exchange of views we will have a recess for approximately 10 minutes. I will return just as quickly as I can.

[Recess.]

Chairman PICKLE. The Chair appreciates your cooperation in remaining so that we can have further discussion about this problem.

A senior member of the Appropriation Committee told me recently that the biggest problem we've got is that we haven't really found the primary answer, and that is that we are not building enough airports. We need more airport capacity, not just primary airports or general aviation airports, but both. And until we find some way to build more airports and more capacity we just simply are not going to find the answers. It is probably going to get worse before it gets better.

Do any of you agree with that? Or does anybody disagree with that general observation?

Mr. LANDRY. No. I'd certainly agree, Mr. Chairman. You have got to both build new airports and increase the capacity and enhance the capacity of existing airports because there is, of course, a long lead time in building one.

Chairman PICKLE. Well, I showed the FAA administrator this morning this big printout of some 2,500 projects scattered all across the nation and delineated some of them specifically.

As I took his answer, it was that he said that every one of them are important projects. He didn't say any of them are unnecessary or junk proposals, but said that they are all important.

And I said, "Well, do you think that they ought to be accommodated?" And the answer was yes, in one way or the other, and then commenced a little wiggling as to who is to do it.

My first question to you would be: are these types of projects needed across the country in your judgment?

Mr. BAKER. Mr. Chairman, there is no question that they are. Many of those projects are aimed at expanding existing capacity.

The dilemma with which we are confronted, however—and it may be an insuperable problem, I'm not sure—is that only two legs of the three-legged stool of aviation are under the control of the Federal Government: the operation of the FAA and the air traffic system, the research, the personnel—those kinds of things. But the third leg of that stool relies wholly on local initiative.

Chairman PICKLE. On what?

Mr. BAKER. Local initiative. Until the local community does something, nothing happens on an airport. And unfortunately there are a great number of communities that don't have the same view of the future that Austin does. They are not building the capacity. They are now starting to rationalize that constraint should be the policy for the future.

Chairman PICKLE. Well, are you saying that airports just don't start a new project until the funding is fully provided?

Mr. BAKER. No, sir. I don't believe funding oftentimes is the pacing item. I think quite often the pacing item is the tendency of a local politician to equate an airport with a garbage dump or a

nuclear waste site. Everybody wants a good airport; they just don't want it in their back yard.

As a result, it is a volatile political issue for the local politician to take the initiative. And if, indeed, we can't find a way to provide an incentive and provide some national leadership to take him out of that vice we aren't going to see new airports build.

Chairman PICKLE. I'm not going to argue that point at all with you, because local initiative has to be one of the considerations. But today, from a Federal standpoint, I'm talking about the trust funds we have here, not what else we can do. If necessary, it would come to that. My question is: do we spend this money?

I ask all of you: do you think that there is a surplus of approximately $6 billion in the trust fund now? Does anybody disagree to that?

[No response.]

Chairman PICKLE. Your analysis is that it is.

Mr. LANDRY. Absolutely.

Chairman PICKLE. The Appropriation Committee at one time or another said that this is sort of an inflated figure and it is not really there. You don't agree with that; is that correct? The money is there?

Mr. BAKER. Yes.

Chairman PICKLE. All right. Now, if this list of projects totals $4.6 billion, you're saying that the fund ought to be spent. Several of you have said that the $8 billion that we passed in December, $8.7 billion or whatever it was, while it was a strong statement, is still woefully inadequate based on what our needs are. Some of you have testified that our needs are really more in the nature of $23 billion. Who made that statement? I think that is also agreed upon by the industry. The FAA study indicated the 10-year need of $22 to $23 billion.

Mr. McCormick, will you——

Mr. MCCORMICK. That's $24.7 billion eligible for AIP assistance which is very important. The stress at the local level is also—there is an awful lot of airport capacity development that is not eligible for AIP aid, and that constitutes almost as much as the stuff that is AIP eligible.

Chairman PICKLE. All right. Can any of you tell me, in your opinion, why the money is not being spent? Two or three of you made some reference to budgetary constraints. What do you mean by that? What is the problem why the money is being spent in your judgment?

Mr. BAKER. There are two reasons with this administration, Mr. Chairman. One is that ideologically they believe that burden should be thrown at the local community under their conception of federalism. We have heard that.

Chairman PICKLE. Are you saying that they think they'd like to push this off on local communities rather than the Airport Trust Fund authority?

Mr. BAKER. That's right.

Chairman PICKLE. Because of budgetary reasons?

Mr. BAKER. I think philosophical reasons first, and the second is that by underfunding the airport area I think they have created a situation where Congress tends to underappropriate as a result.

Mr. LANDRY. And I think, Mr. Chairman, part of the problem, too, you put your finger on earlier when you talked about that umbrella—that when the DOT budget comes up here you have to borrow money from that pot in order to accommodate Amtrak needs or what have you. Then, something is going to be sacrificed, and it ends up, unfortunately, the aviation side quite often.

Chairman PICKLE. Well there has got to be an answer to this. We just can't accept the fact that nobody can move forward to spend the money that everybody would seem to want to spend. And I think this committee has got to try to help the various segments to find an answer, because if we don't, that trigger is going to go into effect. Then, all hell will break loose across this country because people are going to say you're neglecting airport safety.

Do you disagree with that? We have put the trigger in from this committee that if you don't spend it at the authorized level—up to 85 percent—then there will be a reduction of 50 percent in certain categories. Are you all in favor of the trigger?

Mr. MCCORMICK. Yes, sir. The trigger is needed because, for example, you mentioned earlier supplemental appropriations. That will never happen without the threat of that trigger.

Chairman PICKLE. All right. Now, you're agreed then that the problem is basically the budget procedure with the umbrella cap. For some reason or the other they are not spending the money, and I think I agree with you that it looks to me like they're trying to stack their own budget rather than spend that money. We have somehow got to see how the Appropriation Committee can get out from under that restraint. I'm not sure that I know how to do it, but we've got to try to find a better answer for it.

Now, we had some suggestions this morning from the Administrator McArtor who said that, No. 1, the discretionary money formula ought to be changed. That is: in the big, broad trust fund bracket where 34 percent of funds are for AIP, only 40 percent of that goes to discretionary funding, then perhaps we ought to change that 40 up to 50 or whatever, and maybe even change some of the other formulas in the AIP program. Do you agree with that?

Mr. MCCORMICK. Yes.

Mr. BAKER. Yes, sir.

Chairman PICKLE. All right. Now, he also has indicated that if discretionary money is increased, let's say doubled from whatever it is now, that those cities that are trying to build an airport might also have the right to expect their discretionary money to be increased in percentage to the type of increase we have.

In other words, if in my city we were going to get $10 million perhaps for a period of 5 years on a new airport, if the appropriations were doubled, and we're thinking in terms of those figures, then at least more people could expect more money out of that particular fund. But that still is contingent on the appropriation being made.

Have you, each of you, expressed your feelings strongly to the FAA about how you think it ought to be done and the need for these projects?

Mr. MCCORMICK. We certainly would like to see the FAA given more discretion.

Chairman PICKLE. Well, I got your testimony this morning. Have you said anything to the FAA?

Mr. MCCORMICK. Certainly.

Chairman PICKLE. To the administration?

Mr. BAKER. Mr. Chairman, there has got to be more money put into the pot, also. That's the other half of the equation, and the FAA has got to come up and fight for it. Obviously they have industry support. There is no one in the industry that would be opposed to seeing the AIP account increased.

Mr. DICKERSON. We support what John just said, Mr. Chairman. In fact, we have had some great concern over recent attempts by FAA to rearrange some of these formulas to give more of the capacity money to the larger airports. Smaller airports are as big a player in the air transportation system as the large air carrier facilities. They all have to be considered.

Mr. BAKER. Yes. The other problem I think that has to be confronted, Mr. Chairman, is that the bulk of that money currently goes out under entitlement. In other words, it goes back where it is collected.

Any dramatic increase in the size of the discretionary account is going to have a dramatic impact on that and you're taking on quite a battle.

Chairman PICKLE. Yes, I think it will, too.

What other alternative methods of financing might we look at? The Administrator said this morning that we might think in terms of loans, or low-interest loans, or using the trust fund for loans to borrow against the fund, itself, as sort of a Fannie-Mae would, say, for lack of a comparison, or any combination of it. Would you think those are appropriate alternatives?

Mr. MCCORMICK. Not alternatives, but supplements to the——

Chairman PICKLE. I beg your pardon.

Mr. MCCORMICK. A loan program would be a very good supplement to the grant program. It should not be used as a replacement. There are fundamentally different impacts associated with a grant versus a loan, and the ability to target grants to needed development and to the communities that need that sort of assistance—a direct subsidy, direct assistance—as compared to a loan, is very different.

Where AOCI is in the process now of having the consultant that helped put the EPA revolving loan program together develop the details of such an airport loan program, but there is no way it should replace the grant program.

Chairman PICKLE. One of you testified—I think Mr. Landry—that one of the most significant developments since deregulation has been the operation and/or the development of the hub system of moving traffic faster. What effect has that had on the aviation industry, Mr. Landry?

Mr. LANDRY. Well, you obviously have a concentration of flights, peaking of flights at given hours at say 20 large hubs that are scattered across the country.

There has been, as a consequence, the ability to move to aircraft that are more properly sized to the markets. That produces great economies that have been passed on to the consumers. Consumers out there in the small- to medium-sized airports have been given a

great deal more service in terms of a variety of service, with a great many more destinations they can go to, as compared to the old days when it was a linear route that hippity-hopped along across the country and did not provide the kind of convenience that hub and spoke provides to those consumers.

Consumers have been the great beneficiaries of that, and it has cut down the cost of air transportation.

Chairman PICKLE. Well, do you think that we will see—perhaps in the immediate years ahead—a kind of hub upon a hub—that is, some smaller hubs as well as the big hubs? As I see it, most of the hubs are nearing capacity. Is that correct?

Mr. BAKER. Yes.

Mr. LANDRY. I think so. I think that a number of them are. There may be a few more hubs that will be created in the country, but I think also, as the markets mature, you will see a return, in some instances, to city-pair service—direct, nonstop service. So you will have a mixture of hub and spoke and nonstop service.

Chairman PICKLE. Well, it seems to me that if you go out to National Airport and take off from there it is very common that there is a 15, 20, or 30-minute waiting period just to take off. Just the taxing out and taking off, and if you missed your slot, well that's too bad.

If that is so, and it is true in other airports, too—it's true in the Dallas-Fort Worth and in Atlanta—those are my primary hubs—then this is common practice. Now, that seems to me to say that there are a lot of takeoffs and landings, and that we are reaching the near saturation points in these hubs. Do you disagree with that?

Mr. MCCORMICK. Some are and some aren't.

Chairman PICKLE. If we've not reached the saturation point, we are close to it. Is that true? Does anybody have a comment?

Mr. MCCORMICK. That's the major hubs.

Mr. BAKER. At some periods of the day, Mr. Chairman. It peaks in the morning and peaks in the evening.

Chairman PICKLE. In the heavy time.

Mr. MCCORMICK. And there are certain locations where that nearing capacity situation is cause for concern and others where it is not, because some of the hubs have the ability to expand.

Mr. DICKERSON. What AAAE has said, Mr. Chairman, is that instead of jamming more traffic into Chicago, Atlanta, and Dallas, there are a number of other cities that would put out a welcome mat for a minihub, for example, Columbus, Austin, Louisville, Indianapolis—because they see a hub as an economic benefit. And we need to capitalize on that and make better utilization of the existing airports.

Chairman PICKLE. But we're not building more hubs and we may have to build more hubs. It is not enough to say that they are busy. Whenever there is a delay in a hub, that ripples out throughout the whole flight pattern, and that causes the little airline back in the western United States to be affected. There is no disagreement on that point, is that correct? It is a total rippling affect throughout the industry.

Now, I asked the Administrator earlier if we had too many planes in the air, and of course he said no, we don't have too many planes. I would expect that answer.

And I asked him if he thought there was a safety question, and he said no, we're working on that and adding to it. I would expect him to say that. And I'm not going to say it is not safe.

But I also say that with the limited facilities we have and the lack of appropriated funds, we are going to be having a serious safety problem if we don't do something about improving and using these funds. Do you agree with that?

Mr. BAKER. No.

Mr. MURPHY. Mr. Chairman, the FAA simply is not going to——

Chairman PICKLE. Who are you?

Mr. MURPHY. James Murphy with the Air Transport Association and Air Traffic Control.

Chairman PICKLE. All right.

Mr. MURPHY. Mr. Chairman, the FAA air traffic control service simply is not going to allow more airplanes into the air than it can safely handle at any one time, and that is one of the prime causes, of course, for gate delays at a Dallas-Fort Worth or at a Chicago.

Chairman PICKLE. Well, they ought not to let more planes take to the air than they can handle.

Mr. MURPHY. I'm confident that they don't.

Chairman PICKLE. I would agree with that homily. But when they don't allow them to take off, that means the congestion is building up. So it is not enough to say we're not going to let more planes in the air, because then the delays get greater.

I have got a feeling that the Members of Congress probably have a better track record to keep on these kind of flights than almost anybody in the country because every day, every hour on the hour, it seems like we are taking off and going home or going somewhere. I want to ask the Members of Congress to keep a log here in the months ahead of their flights. I think it would be interesting to see in just this one group.

Now, I don't make the accusation that the air is unsafe. But when we read almost day after day of another near-miss or something that has happened or some kind of neglect that didn't happen 10 years ago, then I think we have got to say that the air is getting too full. There are more delays and there is a greater need for expending these funds for the purpose for which they were given.

And the only reason I see that we are not doing it is that the administration is dead set—I ought not use that phrase—and determined that they are going to spend a certain amount of money in certain categories for budget reasons. Then Congress says we are not going to slash some of these programs and we're going to put money in it. And when that happens, because of our efforts to protect the AIP funds, we just said, "All right, we're going to reserve that money, and we're not going to let you spend it all on OMB." And it is just almost that simple. And, yet, finding an answer is almost an impossible task at this point.

But I do think that this hearing points out the need for making improvements. We need to provide more capacity. We need to be concerned seriously about safety because in another year or 2, or

soon, we are going to have a incident that is going to spark demands for action. We ought not to wait for that to happen. It is going to happen, sure as the world. Maybe it's going to happen anyway, you can say, and we hope not, because that would be terrible. But at the same time we are issuing an invitation for that to take place.

So it seems to me like it is absolutely imperative to the Congress to work with the administration to find some way to release this money because the money is there, it is not inflated, it is not arbitrary, it is in reserve. It is not enough, in my judgment, to say that we are spending too much money from the general taxpayers. There is no reason in the world, as I see it, that taxpayers shouldn't pay for some of the operation and maintenance of the field, and they admitted that this morning. But they would like to use more and more of it because it makes their budget look better.

At the same time, I don't think we can just go out and throw money at these airfields because that would not be a wise approach. But we are not trying to throw away money. I, as one Member, am simply trying to say, "Let's spend the money for the purpose for which it was intended." And everybody agrees. I guess getting it is another matter.

Well, I'm going to ask you all to continue to keep in touch with us. We have got additional questions, yet I'm not going to keep on asking questions. I will submit some to you individually and I'd like for you to respond.

We're going to have additional hearings on this subject. I regret this morning we did not have the Appropriations representatives here, and deeply regret that Mr. Mineta could not come because Mr. Mineta is very mindful of what is not happening down the street and the restraints they are working under, and he is totally frustrated about what can be done. We'll ask Mr. Mineta to come back with us again.

So we will have additional hearings.

Let me ask if any other members or staff have got any questions. Mr. Baker.

Mr. BAKER. Yes, sir. Earlier I think Mr. Daub or someone referred to a survey that was released and I referred to it in my testimony, and if the chairman would like we would be happy to submit it for the record. It is a survey of nonpilots on attitudes regarding aviation, and it was done by a very reputable organization.

Chairman PICKLE. Well, you submit it to us and we'll consider that as part of the record then.

[The Survey of Americans' Attitudes Toward Air Travel follows:]

A SURVEY OF AMERICANS' ATTITUDES TOWARD AIR TRAVEL

PREPARED FOR:
THE AIRCRAFT OWNERS
AND PILOTS ASSOCIATION

INTRODUCTION

The following report is based on a nationwide survey of 1,000 adults age eighteen and above, commissioned by the Aircraft Owners and Pilots Association. Hamilton, Frederick, and Schneiders designed and administered this survey, utilizing an in-house phone bank of professional telephone interviewers which conducted the interviewing on the evenings of June 6 through June 18, 1988. The maximum sampling error for this study is plus or minus three percentage points, at the 95% confidence level.

HFS
HAMILTON, FREDERICK & SCHNEIDERS
1019 19th STREET, N. W. • SUITE 1300
WASHINGTON, D.C. 20036
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KEY DATA FINDINGS

Americans exhibit a high degree of concern for the safety of air travel today, as 82% view this as a serious problem, including 34% who feel it is a very serious problem. Additionally, a majority of Americans (52%) feel air travel has become less safe today than it was five years ago.

Four-in-ten Americans (42%) volunteer maintenance problems with airliners as the major cause of air safety problems today. Inattentive personnel/human error (15%), air traffic controllers (14%) and the volume of air traffic (12%) are volunteered by far fewer respondents. Further, it is key to note that only two percent mention private aircraft as a major cause. When given a list of possible remedies for air safety problems, it follows that two-thirds of Americans (63%) place highest priority on improving maintenance of airliners. Less-prefered options include improving the air traffic control system (41%), rescheduling flights (26%), and building or improving airports (25%). Very significantly, only 19% opt for limitations on private aircraft traffic.

Flight delays are viewed with somewhat less concern as a problem with air travel as 16% feel this is a "very serious" problem and 48% say it is "somewhat serious." There is also much less concentration of blame for this problem -- 20% volunteer bad weather as a cause; 19% too many flights/overcrowding; 18% airline schedules; 15% airport congestion; and 14% say maintenance of airliners. There is no volunteered mention of general aviation as the principal cause of flight delays. In terms of possible remedies for

flight delays, most attention is focused on more realistic scheduling (56%) and improving or building new airports (38%). Just 22% mention limitations of private aircraft flights.

By a significant margin, Americans clearly prefer expanded airports and improving the air traffic control system (68%), as opposed to limitations on aircraft flights (24%) as the best approach to relieve airport congestion -- which 54% view as a "very serious" problem. If flight limitations were required, 63% would prefer to see limiting general aviation and commercial flights equally; 6% say limit just commercial traffic and 25% say only limit general aviation.

Americans clearly desire a wide-scope national aviation policy -- 87% agree that the federal government should develop a nation aviation policy that takes into account the needs of all users of the air transportation system; and 89% agree there needs to be a major overhaul of our national transportation system -- including aviation as well as highways and railroads. Americans exhibit mixed opinions towards the federal government's performance thus far on managing aviation -- 54% rate the government positively and 43% negatively -- while 60% agree the government's deregulation of the airline industry has made air travel less safe.

TABLE 1

EVALUATIONS OF THE SAFETY OF AIR TRAVEL:
BY REGION

	Nation-wide %	Region: North-east %	South %	Mid-west %	West %
Thinking now just about the issue of the safety of air travel today, would you say this is a very serious problem, a somewhat serious problem, a not too serious problem, or is it not at all serious of a problem?					
Very serious	34	30	38	30	35
Somewhat serious	48	52	42	52	51
Not too serious	15	15	16	15	12
Not at all serious	3	3	3	3	1
No opinion	--	--	--	--	--
Total Serious	82	82	80	82	86
Total Not Serious	18	18	19	18	13
Generally speaking, would you say that air travel today is much more safe, somewhat more safe, somewhat less safe, or much less safe than it was five years ago?					
Much more safe	8	9	10	5	8
Somewhat more safe	29	26	30	29	29
Somewhat less safe	37	39	33	39	39
Much less safe	15	16	16	15	13
(VOL) Same	7	6	6	8	7
No Opinion	5	5	5	4	4
Total More Safe	37	35	40	34	37
Total Less Safe	52	55	49	54	52

TABLE 2

VOLUNTEERED CAUSES FOR PROBLEMS WITH THE SAFETY OF AIR TRAVEL: BY REGION

	Nation-wide %	Region: North-east %	South %	Mid-west %	West %
What do you feel is the main cause of any problems with the safety of air travel today?*					
Maintenance of airliners	42	41	44	40	40
Inattentive personnel/ human error	15	17	13	18	11
Air traffic controllers	14	14	11	17	10
Volume of air traffic	12	10	10	11	19
Outdated equipment	8	8	6	10	8
Airport congestion	6	6	4	7	8
Airlines (general)	6	7	5	4	6
Security problems	6	4	6	3	2
Deregulation	5	6	3	8	5
Drug use	3	3	3	3	1
Shortage of personnel	3	3	3	3	3
Lack of training	3	3	3	3	3
Overbooking of flights	2	2	1	3	3
Government (general)	2	2	2	2	2
Other mentions	6	6	5	6	7
No opinion	10	11	12	8	7

* Respondents were allowed more than one response, so figures may add o more than 100 percent.

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TABLE 3

REACTIONS TO PROPOSED REMEDIES TO PROBLEMS WITH AIR TRAVEL SAFETY: BY REGION

	Nation-wide %	Region: North-east %	South %	Mid-West %	West %
Which of the following do you feel should be done first to increase the safety of air travel?*					
Improve maintenance of commercial airlines	63	64	63	65	59
Improve and expand the air traffic control system	41	39	40	41	47
Reschedule commercial airline flights to ease overcrowding of peak times	26	37	22	27	24
Add new runways or build new airports to relieve congestion	25	26	25	22	26
Limit all private aircraft traffic at major airports	19	19	19	17	23
Modernize weather detection systems	9	6	12	9	6
Other mentions	5	2	5	6	7
No opinion	3	2	5	3	1

* Two mentions combined.

TABLE 4

OPINIONS OF AIRLINE FLIGHT DELAYS:
BY REGION

	Nation-wide %	Region: Northeast %	South %	Mid-West %	West %
Thinking now just about the issue of late and delayed airline flights, would you say this is a very serious problem with air travel today, a somewhat serious problem, a not too serious problem, or is it not at all serious of a problem?					
Very serious	16	17	14	16	16
Somewhat serious	48	48	51	48	44
Not too serious	27	29	26	18	27
Not at all serious	6	2	6	16	9
No opinion	3	5	4	2	3
Total Serious	64	65	65	64	60
Total Not Serious	33	31	31	34	36
Generally speaking, would you say the problem of late and delayed flights has become much better, somewhat better, somewhat worse, or much worse than it was five years ago?					
Much better	4	4	5	2	3
Somewhat better	22	22	26	21	18
Somewhat worse	38	37	34	43	42
Much worse	18	22	18	14	18
No opinion	18	15	17	21	18
Total Better	26	26	31	23	21
Total Worse	56	59	52	57	60

TABLE 5

VOLUNTEERED CAUSES FOR FLIGHT DELAYS:
BY REGION

	NATION-WIDE %	REGION			
		NORTH-EAST %	SOUTH %	MID-WEST %	WEST %
What do you feel is the main cause of late and delayed flights?*					
Weather conditions	20	21	22	19	16
Too many flights/ overcrowding	19	18	13	21	27
Airline schedules	18	15	20	18	16
Airport congestion	15	16	16	15	13
Maintenance of airliners	14	16	15	14	11
Overbooking of flights	10	12	7	11	11
Late passengers	6	6	6	6	8
Airlines (general)	6	7	7	5	8
Air traffic controllers	1	1	1	1	--
Baggage delays	1	--	1	--	1
Shortage of personnel	1	1	2	2	--
Government (general)	1	--	--	--	2
Other mentions	4	2	4	4	6
No opinion	18	19	18	17	17

* Respondents were allowed more than one response, so figures may add to more than 100 percent.

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TABLE 6

REACTIONS TO PROPOSED REMEDIES FOR DELAYED FLIGHTS: BY REGION

	NATION-WIDE %	REGION: NORTH-EAST %	SOUTH %	MID-WEST %	WEST %
Which of the following do you feel should be done first to improve the problem of late and delayed flights?*					
Force commercial airlines to provide more realistic scheduling of flights	56	63	50	55	64
Add new runways or build new airports to relieve congestion	38	36	40	37	37
Improve and expand the air traffic control system	31	32	32	32	25
Improve maintenance of commercial airliners	27	30	27	29	23
Limit all private aircraft traffic at major airports	22	23	22	21	25
Reduce the number of commercial airline flights	8	8	10	6	7
Other mentions	3	1	3	4	3
No opinion	4	1	5	6	4

* Two mentions combined.

TABLE 7

OPINIONS OF AIRPORT CONGESTION PROBLEMS:
BY REGION

	Nation-wide %	REGION			
		North-east %	South %	Mid-West %	West %
As you may know, the federal government has recently taken steps to reduce the congestion of airplane traffic at some of our nation's major airports. In your opinion, how serious of a problem is the congestion of airplane traffic?					
Very serious	54	57	49	51	63
Somewhat serious	35	35	37	39	29
Not too serious	7	5	10	7	5
Not at all serious	1	--	--	1	2
No opinion	3	3	4	3	1
Total Serious	89	92	86	90	92
Total Not Serious	8	5	10	8	7
Would you say the biggest problem caused by airport congestion is reduced safety, or is it an increase of late and delayed flights?					
Reduced safety	28	30	27	25	30
Late flights	59	60	57	63	63
(VOL) Both	6	6	7	4	2
(VOL) Neither	2	--	2	2	1
No opinion	5	4	7	6	3

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TABLE 8

REACTIONS TO PROPOSED REMEDIES FOR AIRPORT CONGESTION: BY REGION

	Nation-wide %	Region: North-east %	South %	Mid-West %	West %
Which of the following do you feel is the best approach to help relieve airport congestion?					
Build or expand airports and improve the capacity of the air traffic control system to safely handle the increased number of flights.	68	72	70	67	64
Place limitations on the amount and the type of aircraft flights into major airports.	24	24	22	25	26
(VOL) Mixed	4	3	3	5	7
No opinion	3	1	5	3	3
If limitations of flights were required, how would you prefer to see this implemented?					
Place equal limitations on both general aviation flights and commercial airline flights.	63	63	63	61	66
Place more limitations on the number of business and personal general aviation flights.	25	25	24	27	26
Place more limitations on regularly scheduled commercial airline flights.	6	8	6	7	4
(VOL) Mixed	2	2	2	2	3
No opinion	4	2	6	3	1

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TABLE 9

OPINIONS OF THE FEDERAL GOVERNMENT'S INVOLVEMENT WITH AVIATION: BY REGION

	Nation-wide %	Region: North-East %	South %	Mid-West %	West %
How would you rate the job the federal government in Washington is doing in controlling and regulating aviation to ensure air travel is safe and convenient for everyone?					
Excellent	6	4	7	6	5
Good	48	49	48	50	49
Not so good	29	29	27	29	26
Poor	14	15	14	12	15
No opinion	3	2	4	3	2
Total Positive	54	53	55	56	54
Total Negative	43	44	41	41	44
Our government needs to make a major commitment to an overhaul of our nation's transportation system, and this should include our air transportation system as well as our highways and railroads.					
Agree	89	94	86	87	89
Disagree	10	6	11	12	10
No opinion	1	1	2	1	1
Instead of responding to each new problem with aviation as it comes up, the government should develop a national aviation policy that takes into account the needs of all the people who use aviation in this country.					
Agree	86	90	84	87	84
Disagree	11	7	12	10	14
No opinion	3	3	4	3	2
The federal government's deregulation of the airline industry has made flying less safe for everyone.					
Agree	59	57	56	63	63
Disagree	37	37	39	34	35
No opinion	4	6	4	4	3

Chairman PICKLE. Do any of you have any additional statements?

[No response.]

Chairman PICKLE. All right. Then I thank you very much for your cooperation in helping us find the answer to this problem.

This subcommittee is adjourned.

[Whereupon, at 12:35 p.m., the hearing was adjourned.]

[Responses of panel members to questions submitted by Chairman Pickle follow:]

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MICHAEL A. SUPERATA, COUNSEL TO THE MINORITY

September 13, 1988

Mr. J. Donald Reilly
Executive Director
Airport Operators Council International
1220 19th Street, N.W., Suite 800
Washington, D.C. 20036

Dear Mr. Reilly:

I want to thank you for your testimony at the Oversight Subcommittee's hearing on the operation and future status of the Airport and Airway Trust Fund. To complete our hearing record, I would appreciate having your responses to the following questions by the close of business Friday, September 30, 1988:

1. We understand that more than 2,300 Trust Fund eligible projects, totalling over $4.6 billion, have applied for financing. These projects include installation of centerline and taxi runway lights, repair of a major crack in a runway, purchase of fire and rescue vehicles, and the purchase of snow removal equipment.

   (a) What types of (or specific) projects need to be financed immediately to insure safety in the air?

   (b) What types of projects should be a priority for Trust Fund financing?

2. There are over $4.6 billion in airport improvement projects at FAA awaiting Trust Fund funding, yet the Trust Fund will only spend approximately $1.2 billion a year for these projects.

   (a) Do airports wait until they receive Trust Fund financing before beginning a project?

   (b) If so, please cite examples of improvement projects which have waited more than one year, accompanied with the length of time waited?

   (c) If not, how are airports financing existing needs, i.e. tax-exempt bonds, private loans, and how have methods of airport improvement financing changed in recent years?

3. Have you studied any alternative uses of the Trust Fund, other than the current airport grant program, i.e. loans from the Trust Fund or use of the Trust Fund to reimburse airports for improvement costs incurred while awaiting Trust Fund funding? If so, what are your findings and recommendations?

4. The FAA is in the process of modernizing the air traffic control equipment and facilities, including new radar and communications systems, as part of the National Airspace System (NAS) Plan. According to the General Accounting Office, the delay in this modernization could cause the cost of the System to reach $24 billion by the year 2000.

   (a) What impact do the delays in air traffic control modernization have on our current safety and capacity?

   (b) What concerns are raised by the increased NAS costs which would need to be paid out of the Trust Fund?

5. What is your prognosis for the future of our aviation system with regard to safety and capacity? Does the availability of Trust Fund financing affect your prognosis?

6. As a result of the aviation tax reduction trigger passed last year, certain aviation excise taxes will be cut in half if certain Trust Fund appropriations are not 85% of their authorized levels for fiscal years 1988 and 1989. In fiscal year 1988, the Trust Fund appropriation was only 77% of the authorized level. The current House-passed version of the fiscal year 1989 appropriation is only 81% of the authorized level. Therefore, it appears that aviation excise taxes will be reduced in 1990.

   (a) Is the authorized Trust Fund program level adequate to maintain and improve our air system?

   (b) If Congress is appropriating less than the authorized level, what is the impact?

7. The effect of a reduction in aviation excise taxes in 1990 may be a reduction in Trust Fund financing to increase capacity, modernize equipment and conduct research and development.

   (a) Please give specific examples of how the decrease in available Trust Fund financing will affect our airport and airway system.

   (b) When will we feel the effect of underfunded programs and will the harm be irreparable?

(c) Assess the effectiveness of the aviation excise tax reduction trigger in encouraging Trust Fund financing. Should we extend the trigger to include 1990 appropriations?

(d) Should the tax trigger be repealed?

8. Your testimony discussed AOCI's development of a revolving loan program proposal. We would appreciate submission of your findings and a copy of your proposal, if available.

Your attention to this matter is greatly appreciated. If any assistance is needed, please contact Susan Athy at 225-5522.

Sincerely,

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/sal

AIRPORT OPERATORS COUNCIL INTERNATIONAL

RECEIVED
OCT 21 1988
Ways and Means
Subcommittee on Oversight

October 18, 1988

Ms. Susan Athy
Subcommittee on Oversight
House Ways and Means Committee
1105 Longworth House Office Building
Washington, DC 20515

Dear Ms. Athy:

Please find enclosed our written responses to the questions submitted by the Subcommittee for the hearing record on the operation and future status of the Aviation Trust Fund.

We appreciate the opportunity to provide additional views on this important issue to supplement our testimony. We apologize that we were unable to submit these to you sooner.

We have attached an outline of our recommendations for the creation of a federal Airport Revolving Loan Fund proposal. Presently, we are preparing a fuller report on the proposal which we will send you shortly. We would be happy to meet with you at your earliest convenience to discuss the concept in greater detail.

Again, please accept my apologies for any inconvenience caused by the delay in submitting our responses.

Sincerely,

Art Kosatka
Manager, Governmental Affairs

Attachment

International Headquarters: 1220 Nineteenth Street, N.W., Suite 800, Washington, D.C. 20036
Phone (202) 293-8500 Telefax: (202) 331-1362
Telex: (Toronto) 06217827:IPS (London) 265037:IPS
(First line of message should read: "MAILBOX TO AOCI")

Airport Operators Council International (AOCI) response to questions submitted by the Ways and Means Oversight Subcommittee for the hearing on the future status of the Airport and Airway Trust Fund.

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1. a. Airport Improvement Program (AIP) funds from the Trust Fund (as distinct from FAA's Facilities & Equipment and Research & Development programs) are largely apportioned by a Congressionally mandated formula which sets aside a specific percentage for various types of airport projects. In reauthorizing the AIP program last year, Congress dedicated a portion of the funds for projects that increase safety and capacity. Safety and capacity often go hand in hand, as projects which increase the capacity of an airport are never permitted to reduce safety and often enhance it. New, improved or extended runways, high-speed taxiways as well as technological improvements in the use of parallel and converging runways all contribute to capacity and system reliability. However, because annual appropriations are considerably less than the amounts authorized, the FAA is unable to award grants to many airports for these high priority projects.

b. The most important application of Trust Fund monies must be those which will bring new capacity as well as enhance safety. The greatest need is funding for airport projects which will increase the capacity of the air transportation system, since congestion and delays at one major airport cause a ripple effect throughout the entire system.

2. a. Many airport projects are simply not financially feasible without federal grant assistance. Airports are often forced to phase elements of a project, and thus delay the project, as federal funds become available and are committed. In many cases federal assistance is considerably less than what is need to cover the full eligible federal share of the project, forcing the airport to seek other funding sources, such as debt borrowing or airline support. This adds further delays and increases project costs. It is important to note that the estimated $4.6 billion backlog of eligible but unfunded airport projects does not include many projects for which airports do not even make application to FAA, because they are informed that funding will not be available.

Prior to the reauthorization of the Airport Improvement Program in 1987, airports became ineligible for grants if construction on a project was begun prior to receiving grant approval from the FAA. This created a real dilemma for many airports, forcing projects to be delayed and construction costs to rise until federal funds became available.

While the new AIP program made a significant improvement by permitting airports to proceed with construction with their own funds and remain eligible for future grants if they obtained a "letter of intent" from the FAA, this provision has been used by FAA on a limited basis. The advance construction reimbursement provision should be extended to noise mitigation projects and also needs greater flexibility to allow more airports to begin projects as soon as possible and remain eligible for reimbursement later.

b. As noted in the question, there are a great number of projects -- all eligible and worthwhile -- for which airports have applied but not received grant funding. For FY'88, the top 30 airports alone had project applications pending for more than $1.7 billion, many of which were either not funded at all or received only partial funding. Simply put, there are too many projects competing for too few dollars. Some of the types of projects which need federal aid and await funding are:

- Memphis has a $120 million project for land acquisition and construction of a new parallel runway which is badly needed to reduce delays. The project has been delayed three years for lack of federal funding. Memphis has only received $10 million out of $30 million needed for land acquisition and does not expect to receive any federal assistance for the $90 million cost of the runway.

- Kennedy Int'l Airport received only $7.3 million of the $26 million needed in FY'88 AIP discretionary funds for several new taxiways to increase runway capacity.

- Cincinnati received only $19 million in FY'88 of the $48 million needed for a new runway project pending nearly two years.

- Austin has had on file since 1983 an application for $2.199 million to extend taxiways and install runway lighting.

- San Antonio filed in 1984 for $1.258 million to rehabilitate portions of runway 12L-30R.

- Pittsburgh's $11.2 million midfield apron development has been on hold since 1984.

- Little Rock ($3.5 million) and Ft. Smith, AR ($559,000) projects for runway and taxiway extensions and lights have awaited funding since 1985 and 1984, respectively.

- San Francisco's $4.6 million runway work has been on file since 1982, and work on runway lighting and taxiways at Phoenix ($2.2 million) since 1983.

- Some project applications have been waiting since the late 1970's: $288,000 land acquisition at Wabash, Indiana (1977); $430,000 for parallel taxiways at Foley, Alabama (1978; $2.52 million at Madison, Indiana for runway construction (1979), and there are literally dozens pending from original applications filed between 1981-1985.

- o Land acquisitions, both for facilities and for noise abatement programs, at such airports as Seattle ($7.4 million pending since 1985); Orlando ($52m/1985); Phoenix ($19m/1977); New Orleans ($4.8m/1986; Oklahoma City ($3m/1983); Los Angeles ($4.13m/1985); Sacramento ($4.26m/1982; and San Jose ($11.6m/1984), among many others.

- o Literally hundreds of smaller, but no less important individual projects which contribute to improving and modernizing airport facilities and increasing capacity of individual airports and the system. Among these are runway improvements and extensions, new exit and high speed taxiways, parallel taxiways, terminal facilities, lighting systems, and radar installations, to name just a few.

We also refer the Committee to the FAA's Airport Capacity Enhancement Plan which outlines in greater detail many of the important capacity projects.

c. To the extent possible, airports finance projects from local revenues and/or by raising funds through tax-exempt bond borrowing. Historically, roughly two-thirds of airport capital financing has come from local sources. However, most projects of significant scope require a combination of local funds/debt and federal grant assistance. Recent tax law changes have increased airport borrowing costs, making projects generally more expensive and, in some cases, limiting an airport's ability to raise sufficient capital. Below is a comparison of federal airport grant program (AIP) funding and airport bond issue volume:

U.S. Airport Financing Summary
($ in millions)

Year	AIP Appropriations	Airport Bonds Issued
1982	$450	$1,522.880
1983	750	2,047.890
1984	800	3,417.711
1985	925	2,954.515
1986	885	630.824
1987	1,000	1,222.520
1988	1,268	2,612.546

3. AOCI has studied alternative uses of the Trust Fund in the interest of putting the uncommitted surplus to productive use. AOCI has recently developed a new proposal to create a federal airport revolving loan fund, which was recently endorsed by AOCI's membership. We propose that the revolving fund (RLF) be capitalized by a portion of the trust fund surplus at a level sufficient to provide $1 billion in loans annually for airport improvement and expansion projects.

The RLF would provide a steady and readily available source of funds, in addition to the existing airport grant program, to help bridge the airport funding gap. It would be of great assistance for the construction of major new airports, such as Austin and Denver, for which the grant program is inadequate, for airports which are unable to obtain limited AIP discretionary funds, and for airports that are constrained in their ability to issue bonds to raise capital for development projects or find it financially infeasible. The loan repayments would be used to make additional loans and would eventually make the fund self-sustaining. We look forward to discussing our proposal with this Committee in more detail.

As we noted in response to an earlier question, AOCI also advocates changing the Airport Improvement Program to permit more airports to begin construction projects without having to wait for a grant award. The AIP "letter of intent" process Congress adopted in the Airport and Airway Safety and Capacity Enhancement Act of 1987, while beneficial, should be expanded to any eligible AIP project and to noise mitigation projects.

4. a. Delays in the modernization of the National Airspace System can only harm the aviation system. While in the first instance inadequate, unreliable, or archaic facilities are compensated for by the introduction of capacity restrictions and therefore delay, in the longer term inadequate facilities not up to the standard modern technology can provide will impact the overall safety of the system. It is important to recognize where the delays in the procurement and installation of the elements of the FAA system modernization come from. While they arise in part from inadequate appropriations -- sometimes requests for less than was needed, other times reductions in the requested amounts -- they are in equal measure caused by an ambitious schedule which did not adequately cater for the impossibly complex procurement process to which FAA is condemned; micromanagement in too many layers within FAA and outside it, in DOT, OMB, GAO, etc.; and a workforce which has declined in quantity and skill over the past decade. Excessive dependence on outside contractors to do FAA's work and thinking instead of an adequate skilled and dedicated inside FAA workforce has had a clearly negative effect.

b. The factors enumerated above account in part for the additional costs, inflation for another part. The Trust Fund can cope with the increased costs, but the problems in implementing the NAS Plan system on time and within costs must be examined with the purpose of simplifying FAA's difficult task and removing the hurdles that Congress and the Administration put in the way.

It is also important to recognize that the NAS Plan was and is a facility modernization plan, which does not of itself provide for major gains in system capacity. The major capacity gains which the system desperately needs are yet to be developed and costed out. Important new funding and a higher level of skill than is now available in FAA will be required to make it happen.

5. The safety and capacity of the U.S. aviation system may well decline without a clear recognition of the problems, an honest non-political assessment of the needs, and steps to make the government machinery respond. Funding is by no means the only consideration. Current levels of Trust Fund spending are not adequate for major airport improvements. It is adequate as a funding mechanism for the ATC system modernization if the funds are fully requested, appropriated and used sensibly. There is a huge unmet need throughout the airport system that will continue to grow unless Trust Fund resources are fully committed. This is a major reason why other funding mechanisms, such as a revolving loan fund, need to be considered. Based on the FAA's National Plan of Integrated Airport Systems estimate of $24.3 billion in airport capital development needs over the next ten year, current AIP funding is more than $1 billion below

the amount needed to fund those projects, 72% of which are capacity enhancing projects.

Availability of Trust Fund financing -- or the lack of it -- is a serious impediment to any rational plan to improve the safety and capacity of the aviation system.

6. a. The authorized levels provide a good foundation for maintaining and achieving improvements in the aviation system, but they are not adequate. Even if the AIP program were appropriated at the full authorization level, it cannot meet the magnitude of airport development needs. The FAA's NPIAS and AOCI's own survey of planned capital development projects nationwide reveal funding needs far in excess of what the AIP program can provide. At best it will help prevent the airport system from deteriorating further, but it will not provide the full improvements and new capacity that we must have to handle growing air traffic demands. However, by not appropriating the full amounts each year, the capacity problem is only compounded.

b. The impact of the Administration requesting and Congress appropriating less than the authorized levels means we are putting off needed investments in the airport and airway system. Again, the biggest impact is on capacity: new airports, new runways and other airport expansions which will not be undertaken or will be delayed for lack of adequate funding. The current airport grant program sets aside a percentage of the funds for projects that will increase systemwide capacity. Capacity funds are cut short when Congress underfunds the program. For example, at the current level, only about $100 million in discretionary funds are available for the FAA to target to high priority airport capacity projects. Denver alone needs that much over the next five years. There is simply too little money for the FAA to even begin funding capacity projects. As the FAA has stated, unless actions are taken now to increase capacity, more and more airports will become seriously congested, thereby impeding the system's growth and causing more delays.

7. a. Airport operators hope that the aviation taxes will not be reduced in 1990 and that Congress and the Administration will agree to supplemental funding for aviation programs in FY 1989 to prevent the trigger reduction. In the event the taxes are reduced, however, that is no justification for decreasing Trust Fund spending since the Trust Fund surplus and remaining revenues would be ample to fully fund the programs.

b. Many airports are already seriously congested and more will become congested; restrictions or limitations on access to the major airports will likely increase because of limited capacity; passengers will suffer more delays and inconvenience;

and the $4.5 billion annual cost of delays to passengers and air carriers will continue and may double in ten years. That is a very high price to pay for failing to improve the system. We are losing many of the benefits of deregulation and of the airport activity and aviation growth that contribute to our nation's economy.

c. Admittedly the trigger tax has not been as effective as hoped in encouraging full appropriations from the Trust Fund, largely because of the lack of correlation between Trust Fund tax revenues and expenditures. The new Administration and the new Congress will have to deal with the trigger reduction very soon. We hope the threat of the trigger will compel both branches to support supplemental funding for aviation programs in fiscal 1989 so that the reduction is not triggered.

A supplemental appropriations would be our first recommendation for dealing with the trigger tax. However, failing that, we would support extending the trigger to include 1990 appropriations. Rather than enforce the tax reduction and lose revenues that are needed for airport improvements, we would strongly recommend using the revenues to start up an airport revolving loan fund. Early enactment of the RLF next year would give Congress a creative way to spend some of the Trust Fund surplus and provide more money for airport development.

d. No, the trigger tax should not be repealed for the reasons stated in our testimony. Instead, Congress and the Administration should take action to appropriate the funds. The trigger is an important reminder of the federal government's promise to aviation users and helps keep the connection between the dedicated Trust Fund excise taxes and the programs they are supposed to be used for. It is totally inappropriate to continue collecting user taxes under the guise that they will be spent for a specific purpose when they are in fact being misused to reduce the federal deficit on paper.

8. We have attached for the record the resolution adopted by AOCI's membership in support of creating a federal airport revolving loan fund, along with an outline of the proposal. We will be pleased to send the Committee our full report and recommendations for the revolving loan fund once it is completed, and look forward to working with the Committee on this innovative proposal.

RESOLUTION NO. 8

SUPPORT FOR CREATION OF FEDERAL AIRPORT REVOLVING LOAN FUND

(U.S. Members Only)

WHEREAS the Airport Improvement Program is insufficient to meet airport capital development needs; and

WHEREAS the Airport and Airway Trust Fund has a $6 billion uncommitted surplus derived from federal air passenger and aviation user taxes; and

WHEREAS Trust Fund tax revenues are to be used exclusively for the development and improvement of the nation's airport and aviation airway system; and

WHEREAS the Trust Fund surplus should be used fully to improve the airport and airway system; and

WHEREAS the future of the national airport system depends on airports having additional federal funding sources to help address the critical problems of capacty, safety and noise mitigation;

NOW THEREFORE BE IT RESOLVED by the United States Members of the Airport Operators Council International that the federal government should create an airport revolving loan fund from a portion of the Airport and Airway Trust Fund surplus sufficient to provide at least $1 billion annually in loans for airport projects, and any repayments or other income should be outside the federal budget process and devoted to providing additional loans. The revolving loan fund should supplement and not in any way replace the Airport Improvement Program, and should be administered by the Federal Aviation Administration with its own streamlined application process and requirements. Airports would establish their own project priorities for use of the loan fund and all airport projects that contribute to an airport's airside or landside capacity or system capacity, noise mitigation and improving airport safety and security would be eligible. Notwithstanding the creation of the revolving fund, Congress should annually appropriate the full authorization level for the Airport Improvement Program.

Attachment to
Resolution No. 8

AOCI REVOLVING LOAN FUND PROPOSAL

OBJECTIVE: Create a federal revolving loan fund that will make the trust fund surplus available to airports to help address the critical problems of limited capacity, safety, and noise mitigation.

SIZE OF PROGRAM AND METHOD OF CAPITALIZATION:

Create RLF sufficient to provide at least $1 billion in annual loan committments either through:

1. Single lump sum deposit from Aviation Trust Fund to RLF (would require $5.0 billion to permit $1 billion per year in loan commitments);

Or:

2. Single lump sum deposit plus annual appropriation from trust fund for period or at least five years

Permit leveraging of loan repayments or other RLF income.

PROJECT ELIGIBILITY

All airport projects that contribute to an airport's airside or landside capacity or system capacity enhancement, noise mitigation and improved safety and security, as well as roadways providing direct access to the airport. Each airport would establish its own priorities for applying loan proceeds.

LOAN TERMS

1. Repayment schedule: maximum of 20 years to amortize loan.

2. Interest rates: Market rates based on index of long-term tax exempt bonds.

3. Capitalized interest / Grace periods

   Consider either:

   a. 2-year grace period (no interest capitalized) for all and capitalize interest thereafter without limit as to period; or

   b. Capitalize interest on all projects subject to a 3-year

limit.

4. Other loan requirements:

   a. No issuance expenses;

   b. No reserve fund requirements;

   c. Secured by pledge of net revenues of airport subordinate to other bonded indebtedness.

BUDGET TREATMENT

On-budget RLF but repayments are off-budget (deposited in separate RLF "off-budget" account and do not require appropriation for future outlays as loans.

INSTITUTIONAL ARRANGEMENT

1. Administered by FAA role independent of the Airports Improvement Program (AIP).

2. Develop new, streamlined loan application process.

9/11/88

J.J. PICKLE, TEXAS, CHAIRMAN
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BILL ARCHER, TEXAS

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U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515
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A.L. SINGLETON, MINORITY CHIEF OF STAFF
MICHAEL A. SUPERATA, COUNSEL TO THE MINORITY

September 13, 1988

Mr. Charles M. Barclay
Executive Vice President
American Association of Airport Executives
4224 King Street
Alexandria, Virginia 22303

Dear Mr. Barclay:

Please thank Mr. Dickerson for his testimony at the Oversight Subcommittee's hearing on the operation and future status of the Airport and Airway Trust Fund. To complete our hearing record, I would appreciate having your responses to the following questions by the close of business Friday, September 30, 1988:

1. We understand that more than 2,300 Trust Fund eligible projects, totalling over $4.6 billion, have applied for financing. These projects include installation of centerline and taxi runway lights, repair of a major crack in a runway, purchase of fire and rescue vehicles, and the purchase of snow removal equipment.

   (a) What types of (or specific) projects need to be financed immediately to insure safety in the air?

   (b) What types of projects should be a priority for Trust Fund financing?

2. There are over $4.6 billion in airport improvement projects at FAA awaiting Trust Fund funding, yet the Trust Fund will only spend approximately $1.2 billion a year for these projects.

   (a) Do airports wait until they receive Trust Fund financing before beginning a project?

   (b) If so, please cite examples of improvement projects which have waited more than one year, accompanied with the length of time waited?

   (c) If not, how are airports financing existing needs, i.e. tax-exempt bonds, private loans, and how have methods of airport improvement financing changed in recent years?

3. Have you studied any alternative uses of the Trust Fund, other than the current airport grant program, i.e. loans from the Trust Fund or use of the Trust Fund to reimburse airports for improvement costs incurred while awaiting Trust Fund funding? If so, what are your findings and recommendations?

4. The FAA is in the process of modernizing the air traffic control equipment and facilities, including new radar and communications systems, as part of the National Airspace System (NAS) Plan. According to the General Accounting Office, the delay in this modernization could cause the cost of the System to reach $24 billion by the year 2000.

   (a) What impact do the delays in air traffic control modernization have on our current safety and capacity?

   (b) What concerns are raised by the increased NAS costs which would need to be paid out of the Trust Fund?

5. What is your prognosis for the future of our aviation system with regard to safety and capacity? Does the availability of Trust Fund financing affect your prognosis?

6. As a result of the aviation tax reduction trigger passed last year, certain aviation excise taxes will be cut in half if certain Trust Fund appropriations are not 85% of their authorized levels for fiscal years 1988 and 1989. In fiscal year 1988, the Trust Fund appropriation was only 77% of the authorized level. The current House-passed version of the fiscal year 1989 appropriation is only 81% of the authorized level. Therefore, it appears that aviation excise taxes will be reduced in 1990.

   (a) Is the authorized Trust Fund program level adequate to maintain and improve our air system?

   (b) If Congress is appropriating less than the authorized level, what is the impact?

7. The effect of a reduction in aviation excise taxes in 1990 may be a reduction in Trust Fund financing to increase capacity, modernize equipment and conduct research and development.

   (a) Please give specific examples of how the decrease in available Trust Fund financing will affect our airport and airway system.

(b) When will we feel the effect of underfunded programs and will the harm be irreparable?

(c) Assess the effectiveness of the aviation excise tax reduction trigger in encouraging Trust Fund financing. Should we extend the trigger to include 1990 appropriations?

(d) Should the tax trigger be repealed?

8. Your testimony included suggestions on improving aspects of the budget process affecting Airport and Airway Trust Fund spending. If these suggestions are based upon research conducted by AAAE, we would appreciate receiving your findings.

Thank you for your attention to this matter. If any assistance is needed, please contact Susan Athy at 225-5522.

Sincerely,

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/sal

SUBMISSION OF WRITTEN ANSWERS
BY THE AMERICAN ASSOCIATION OF AIRPORT EXECUTIVES
TO THE COMMITTEE ON WAYS AND MEANS
NOV. 2, 1988

1. (a) Obviously the FAA and the airport managers of the country will not allow unsafe conditions to exist for a lack of federal funds. However, if any of the items mentioned in your question which are safety-critical and unable to be repaired for a lack of funds, failure to repair them will result in inefficient operating practices (such as closing a runway) to remedy the safety problem. Consequently any of the types of projects mentioned should be high priorities for funding, and obviously, the more funded the more efficiently the system will operate.

(b) Critical safety and capacity related projects should receive priority treatment for Aviation Trust Fund financing. These projects, which include everything from the installation of airfield lighting and signing systems to the funding of navigational aids that enhance airport capacity, must receive immediate attention if our aviation system is to keep pace with the increasing demands of the traveling public and the industry.

2. (a) Under existing law, if an airport sponsor begins a project with non-federal funds, in most cases that sponsor cannot later apply for reimbursement from the Airport Improvement Program (AIP) to pay off its debt. Privately financed projects become AIP-ineligible when begun and, as a result, many credit worthy airport projects are unnecessarily delayed. These projects wait in the queue of the FAA project preapplications for federal financing to become available since construction undertaken in advance of a commitment of federal Aviation Trust Fund dollars renders most projects ineligible for later federal reimbursement.

(b) AAAE does not maintain such project specific information. However, it may be obtained from the FAA.

(c) Tax-exempt bond financing remains the most widely used method for financing airport development by governmental entities. For example, over $1 billion of tax-exempt bonds were issued in the first six months of 1988 by local communities for airport modernization, a 200 percent increase over the same period in 1987. As such, tax-exempt status for financial public-use airport facilities must be preserved if we are to effectively upgrade and improve the nation's airport system. In addition, a number of airports are entering into agreements with the private sector to assist with the financing of major projects, particularly those that involve terminal facilities.

3. Congress should allow all AIP-eligible projects that are undertaken with non-federal financing to be eligible for reimbursement so that needed projects will be begun as quickly as possible. The FAA should be directed to make available to airport sponsors through "full funding agreements" the difference between the level of funding that could be made available under FAA's current AIP authorization and funds made available for that purpose under the fiscal year appropriations. Such full funding agreements with local governments, would enable additional high-priority airport projects to be commenced currently but with no impact on current year AIP contract authority levels.

Full funding agreements entered into by FAA should extend beyond the term of the current AIP authorization and obligations beyond that period would be legally contingent upon the future availability of funds. Project eligibility for these agreements should be determined under the priority criteria established in the current authorization law, with special emphasis on projects that enhance safety or maximize system capacity.

4. (a) Capacity is reduced because inefficient operating procedures must be utilized to maintain system safety.

(b) Obviously, the longer NAS projects are delayed the greater costs escalate making less money available for other important projects which compete for trust fund dollars.

5. As we have stated earlier, over $3.5 billion of eligible airport safety and capacity related projects are presently unfunded. The Federal government must commit to funding these projects from the Aviation Trust Fund if we are to modernize our national air transportation system. Otherwise, we face the strong possibility that the U.S. aviation system, the best and most efficient in the world, will deteriorate beyond repair. The users of our aviation system were assured by Congress that the ticket tax would be invested for no other purpose other than for development and modernization of the airport and airway system. Yet, every year that promise is broken. The American people deserve better. It is time for the Federal government, including Congress, to take responsibility and release these dedicated under fees to that we can modernize and upgrade our nation's airports.

6. (a) In 1987, the Congress passed the Airport and Airway Safety and Capacity Expansion Act and in doing so, authorized a five-year, $8.7 billion program for airport grants to be financed by the continuation of the aviation user taxes, primarily the 8 percent airline ticket tax. Even though the new authorization law is acceptable to airport executives, a strong case can be made that the annual level of airport grant-in-aid assistance that Congress authorized to be spent is far too low to provide adequate ground capacity for today's air transportation system, let alone tomorrow's.

The airport system's tremendous safety and capacity needs are demonstrated by an FAA report titled the "National Plan of Integrated Airports Systems (NPIAS)", in which the FAA estimates total eligible airport needs of $24.3 billion will be required over a ten-year period between 1986-1995.

AAAE believes that the funding levels for the NPIAS plan are conservative, but does demonstrate that airport capital development needs are real and that the 1987 authorization law should be viewed as a minimum benchmark for determining adequacy of federal airport financing.

(b) The impact of Congress appropriating less than the authorized level for the past two fiscal years, is that an estimated $700 million in aviation user fees will have been collected but not spent on airport system development needs. That unspent $700 million could provide as much landing area capacity as adding another Chicago O'Hare airport or and Atlanta Hartsfield Airport some place in the national system. Or, alternatively, adding fourteen new runways at existing airports around the nation to help reduce the $5 billion in passenger and air carrier delay costs suffered last year.

7. (a) It is hard to understand why a decrease in the ticket tax would result in even less money being available for needed projects, as the reduction provided in the trigger tax provision is merely an attempt to balance trust fund income with appropriated spending levels. However, if Congress were to even further prevert the process and lower appropriations as a result of the tax reductions, then obviously, the impact would be a worsening of the problems described above.

(b) Airline consumers and users of the airport and airway system are already feeling the effect of underfunded programs. One only needs to look at the consumer complaint records filed with the U.S. Department of Transportation to realize that the system needs immediate help.

(c) Perhaps it is too early to determine the effectiveness of the aviation excise tax reduction trigger in encouraging trust fund financing. AAAE will urge the next President and the 101th Congress to approve a supplemental appropriations request for the amount necessary to prevent the taxes from being cut by 50 percent. We have estimated that approximately $2 billion will be saved if Congress approves a supplemental of $450 million.

(d) No, the tax trigger should not be repealed.

8. The aviation trust fund "budget fix" suggested in AAAE's testimony is one supported by the National Aviation Associations (an ad-hoc coalition of 12 major aviation trade associations). The suggested "budget-fix" was researched, analyzed and created by a former House of Representatives Budget Committee Staff Director in consultation with the aviation coalition.

J.J. PICKLE, TEXAS, CHAIRMAN
SUBCOMMITTEE ON OVERSIGHT

BERYL ANTHONY, JR., ARKANSAS
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COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES

WASHINGTON, DC 20515

SUBCOMMITTEE ON OVERSIGHT

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September 13, 1988

Mr. Gabe Phillips
Acting President
Air Transport Association
1709 New York Avenue, N.W.
Washington, D.C. 20006

Dear Mr. Phillips:

Please thank Mr. Landry for his testimony at the Oversight Subcommittee's hearing on the operation and future status of the Airport and Airway Trust Fund. To complete our hearing record, I would appreciate having your responses to the following questions by the close of business Friday, September 30, 1988:

1. We understand that more than 2,300 Trust Fund eligible projects, totalling over $4.6 billion, have applied for financing. These projects include installation of centerline and taxi runway lights, repair of a major crack in a runway, purchase of fire and rescue vehicles, and the purchase of snow removal equipment.

   (a) What types of (or specific) projects need to be financed immediately to insure safety in the air?

   (b) What types of projects should be a priority for Trust Fund financing?

2. There are over $4.6 billion in airport improvement projects at FAA awaiting Trust Fund funding, yet the Trust Fund will only spend approximately $1.2 billion a year for these projects.

   (a) Do airports wait until they receive Trust Fund financing before beginning a project?

   (b) If so, please cite examples of improvement projects which have waited more than one year, accompanied with the length of time waited?

   (c) If not, how are airports financing existing needs, i.e. tax-exempt bonds, private loans, and how have methods of airport improvement financing changed in recent years?

3. Have you studied any alternative uses of the Trust Fund, other than the current airport grant program, i.e. loans from the Trust Fund or use of the Trust Fund to reimburse airports for improvement costs incurred while awaiting Trust Fund funding? If so, what are your findings and recommendations?

4. The FAA is in the process of modernizing the air traffic control equipment and facilities, including new radar and communications systems, as part of the National Airspace System (NAS) Plan. According to the General Accounting Office, the delay in this modernization could cause the cost of the System to reach $24 billion by the year 2000.

   (a) What impact do the delays in air traffic control modernization have on our current safety and capacity?

   (b) What concerns are raised by the increased NAS costs which would need to be paid out of the Trust Fund?

5. What is your prognosis for the future of our aviation system with regard to safety and capacity? Does the availability of Trust Fund financing affect your prognosis?

6. As a result of the aviation tax reduction trigger passed last year, certain aviation excise taxes will be cut in half if certain Trust Fund appropriations are not 85% of their authorized levels for fiscal years 1988 and 1989. In fiscal year 1988, the Trust Fund appropriation was only 77% of the authorized level. The current House-passed version of the fiscal year 1989 appropriation is only 81% of the authorized level. Therefore, it appears that aviation excise taxes will be reduced in 1990.

   (a) Is the authorized Trust Fund program level adequate to maintain and improve our air system?

   (b) If Congress is appropriating less than the authorized level, what is the impact?

7. The effect of a reduction in aviation excise taxes in 1990 may be a reduction in Trust Fund financing to increase capacity, modernize equipment and conduct research and development.

   (a) Please give specific examples of how the decrease in available Trust Fund financing will affect our airport and airway system.

(b) When will we feel the effect of underfunded programs and will the harm be irreparable?

(c) Assess the effectiveness of the aviation excise tax reduction trigger in encouraging Trust Fund financing. Should we extend the trigger to include 1990 appropriations?

(d) Should the tax trigger be repealed?

8. If possible, please specify the 25 research, engineering, and development projects that have been delayed recently due to funding shortfalls which you referenced in your testimony.

Your attention to this matter is greatly appreciated. If any assistance is needed, please contact Susan Athy at 225-5522.

Sincerely,

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/sal

Air Transport Association ata OF AMERICA

1709 New York Avenue, N.W.
Washington, D.C. 20006-5206
Phone (202) 626-4215

GABRIEL PHILLIPS
Executive Vice President
Administration and Industry Programs

RECEIVED
OCT 5 1988
Ways and Means
Subcommittee on Oversight

September 29, 1988

The Honorable J. J. Pickle
Chairman
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairman Pickle:

I am pleased to be able to respond to questions related to our testimony before your Subcommittee concerning the operation and future status of the Airport and Airway Trust Fund, and posed in your letter of September 13. ATA's responses follow on the enclosed attachment and are numbered according to the original questions in your letter.

Sincerely,

Gabriel Phillips

Enclosure

cc: Honorable Richard Schulze
Ranking Minority Member
Oversight Subcommittee

Answers for the Record
Ways and Means Committee
Subcommittee on Oversight
Hearing on August 11, 1988

1. (a) What types of (or specific) projects need to be financed immediately to insure safety in the air?

1. (a) The most important projects are always those that enhance safety, followed by those that increase capacity and efficiency. Critical safety projects include, but are not limited to:

- Runways of appropriate length and strength.
- Extended runway safety areas of at least 1,000 feet in length at each runway end where real estate permits and as much as can be provided in cases of constrained areas.
- Runway and taxiways separated by prescribed distances to assure safe surface maneuvering of aircraft.
- Adequate and appropriate airfield lighting.
- Precision landing aids such as instrument landing systems.
- Appropriate crash-fire-rescue equipment.
- Appropriate snow removal equipment.

b) What types of projects should be a priority for Trust Fund financing?

b) The project priorities are always for safety first, regardless of airport size. Second are capacity enhancing projects at airports having the greatest contribution to the overall national air transportation system. Lastly, bringing airfield construction into compliance with FAA engineering standards completes the most significant compilation of priorities for airport grants.

2. (a) Do airports wait until they receive Trust Fund financing before beginning a project?

2. (a) Until the most recent reauthorization of the Airport Improvement Program, airport sponsors were often forced to wait for actual receipt of Trust Fund money before beginning work on a project. New language has been added to the statute, however, which permits reimbursement to sponsors for approved projects which cannot wait for fund disbursement.

(b) If so, please cite examples of improvement projects which have waited more than one year, accompanied with the length of time waited?

At Louisville, taxiway improvements have been delayed because of limited federal dollars available. And at Raleigh-Durham, project managers for a new cross-field taxiway had to seek alternative funding sources. The FAA Airports District Manager for the Southern Region recently said he receives applications for six times as many projects as he has AIP money for. The FAA's Airport Grants Division can undoubtedly supply the Committee with a more complete list of all of the projects currently awaiting approval, many of which have been pending for an extended period of time.

(c) If not, how are airports financing existing needs, i.e. tax-exempt bonds, private loans, and how have methods of airport improvement financing changed in recent years?

(c) At large hub airports, federal grants generally represent about 10 percent of the capital improvement program. For all the airports, federal funds represent approximately one-third of the capital projects funding source.

Traditionally, the vast majority of federal aid goes to airfield projects while terminals and other support facilities are financed principally through the airport sponsor's issuance of revenue bonds whose debt service is underwritten by airport users. This time-tested method of financing is still the standard in the U.S.

3. Have you studied any alternative uses of the Trust Fund, other than the current airport grant program, i.e. loans from the trust Fund or use of the Trust Fund to reimburse airports for improvement costs incurred while awaiting Trust Fund funding? If so, what are your findings and recommendations?

3. The airlines feel that the amounts authorized for airports, coupled with the ability of airports to finance other improvements through issuance of revenue bonds, combine to form an effective scheme. It must be remembered that everything built must be operated and maintained throughout its useful life. Therefore, almost unrestrained access to capital development funds through loans either directly from, or leveraged through, the Trust Fund could lead to either excessive construction, or construction at sites not meriting major capital projects in the national air transportation system. We feel that the current system with fine tuning adequately serves the needs of the national air transportation system.

4. (a) Is the authorized Trust Fund program level adequate to maintain and improve our air systems?

4. (a) Delays in air traffic control modernization have had an enormous impact on the efficiency of the system, and,

to a certain extent, the safety of the system as well. For example, the extended delays in the acquisition process relating to the Advanced Automation System (AAS) impair the full efficiency of the Host Computers recently installed after many years at the Air Route Traffic Control Centers. The new computers continue to operate with obsolete software pending commissioning of the AAS in the mid-1990's. This affects the safety side as well since new computer programs such as those which automate the conflict alert process, can not be installed. The overall lack of automation in the ATC system means that the system must remain highly personnel-dependent, this at a time when adequate staffing is a particularly vexing problem.

(b) What concerns are raised by the increased NAS costs which would need to be paid out of the Trust Fund?

(b) The industry's primary concern with funding the increasing NAS Plan costs out of the Trust Fund is that as the price tag climbs, the program milestones continue to stretch farther out and user benefits appear to be indefinitely delayed. The users of the system who provide the money for the Trust Fund have no basic objection to paying for the NAS Plan, but as program elements are delayed, costs rise and benefits evaporate.

5. What is your prognosis for the future of our aviation system with regard to safety and capacity? Does the availability of Trust Fund financing affect your prognosis?

5. Our prognosis for the safety and efficiency of the aviation system is mixed. While we believe the current safety levels will continue to improve, we are not so sanguine about air transportation efficiency. The industry is confident that adequate, appropriate financing can be arranged for required airport capacity enhancements, but we believe that the traveling public will continue to experience air traffic control-related delays for the better part of the next decade while we await the benefits of the delayed NAS Plan. The availability of Trust Fund financing directly affects this prognosis as it principally supports the F&E, and R,E&D accounts in the FAA budget, which are the drivers of ATC modernization.

6. (a) Is the authorized Trust Fund program level adequate to maintain and improve out air system?

6. (a) Clearly, the authorized Trust Fund program level, with the exception of the AIP program, is not adequate to maintain and improve our air system, given that ATC capital improvements and major R,E&D efforts are consistently delayed.

(b) If Congress is appropriating less than the authorized level, what is the impact?

(b) Given that the nation's airport and airway system has capital improvement needs estimated in the tens of billions of dollars, it is not possible for Congress to unilaterally make up the shortfall through Trust Fund appropriations. It is absolutely crucial, however, for Congress to appropriate all of the user-provided Trust Fund money and thereby indicate its support for a strong national air transportation system.

7. (a) Please give specific examples of how the decrease in available Trust Fund financing will affect our airport and airway system.

7. (a) As the committee is aware, the NAS Plan has slipped dramatically from its original implementation schedule, and partly as a result, the expected total cost of the program has grown tremendously. Based on the funding levels included in the FY 1989 Department of Transportation appropriations bill, capital investment in the aviation infrastructure will have been underfunded by approximately $1.2 billion during the past two fiscal years from Congressionally approved authorization levels. This is difficult to understand when the needs and inadequacies in our national aviation system are well identified and an unobligated surplus of billions has accumulated in the Aviation Trust Fund but is not being made available. What is needed is a commitment to accelerate spending of available funds and allow the airport/airway system to catch up to a healthy and growing demand for air travel.

(b) When will we feel the effect of underfunded programs and will the harm be irreparable?

(b) Given that virtually all of the major elements of the NAS Plan are under contract, continual underfunding has negative effects. As to whether the harm is irreparable, the answer depends on whether the funding levels are sufficient to achieve implementation. In a broader sense, however, each year that goes by in which this nation fails to modernize a primary engine of its economy causes our industries to fall further and further behind their worldwide competitors. Intense competition requires that transportation, distribution and facilitation systems operate at peak efficiency. Our 1960's-vintage air traffic control system handicaps us tremendously.

(c) Assess the effectiveness of the aviation excise tax reduction trigger in encouraging Trust Fund financing. Should we extend the trigger to include 1990 appropriations?

(c) The airlines supported the trigger tax as an incentive to force the level of appropriations closer to authorized amounts. The trigger tax was an important step in the right direction in order to assure that a balance would be maintained between Trust Fund receipts and disbursements. The automatic tax reduction trigger has arguably helped advance FAA funding, but it has not fully accomplished the goal of assuring full Trust Fund spending for important safety and capacity capital programs. In our view, the trigger tax provision should continue as in current law.

(d) Should the tax trigger be repealed?

(d) No, the tax trigger should not be repealed. If transportation taxes cannot be promptly appropriated, then they should not be collected from the users and allowed to accumulate in the U.S. Treasury.

8. If possible, please specify the 25 research, engineering, and development projects that have been delayed recently due to funding shortfalls which you referenced in your testimony.

8. On the following page is a list of FAA R,E&D projects which have been adversely affected by funding shortfalls in recent budgets.

Deleted and Delayed R,E&D Projects

- Centralized Weather Information Processing
- Low Level Wind Shear Advisory Enhancements
- Advanced Weather Devices and Sensors
- Weather Research
- Terminal/Tower Control
- Airport Capacity Enhancement Demonstrations
- Airport Capacity Data Collection Efforts
- Airport/Airspace Planning
- Wake Vortex Detection and Separation
- Airport Design Improvements
- Data Link
- National Airspace System Development Studies
- Advanced Concepts Studies
- Separation Standards
- User Preferred Trajectories
- Advanced Traffic Management Systems
- Dynamic Special Use Airspace Management
- Oceanic Traffic Management
- Terminal ATC Automation
- Automatic Dependent Surveillance
- Flight Crew Human Factors
- Airport Safety Planning
- Airport Surface Visual Control
- Airport Safety Support System
- All Weather Taxiway Guidance
- Aircraft Takeoff/Landing Advisory Systems
- Controller Human Factors
- Satellite Technology

J.J. PICKLE, TEXAS, CHAIRMAN
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WASHINGTON, DC 20515

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MICHAEL A. SUPERATA, COUNSEL TO THE MINORITY

September 13, 1988

Mr. John L. Baker
President
Aircraft Owners and Pilots Association
421 Aviation Way
Frederick, Maryland 21701

Dear Mr. Baker:

I want to thank you for your testimony at the Oversight Subcommittee's hearing on the operation and future status of the Airport and Airway Trust Fund. To complete our hearing record, I would appreciate having your responses to the following questions by the close of business Friday, September 30, 1988:

1. We understand that more than 2,300 Trust Fund eligible projects, totalling over $4.6 billion, have applied for financing. These projects include installation of centerline and taxi runway lights, repair of a major crack in a runway, purchase of fire and rescue vehicles, and the purchase of snow removal equipment.

   (a) What types of (or specific) projects need to be financed immediately to insure safety in the air?

   (b) What types of projects should be a priority for Trust Fund financing?

2. There are over $4.6 billion in airport improvement projects at FAA awaiting Trust Fund funding, yet the Trust Fund will only spend approximately $1.2 billion a year for these projects.

   (a) Do airports wait until they receive Trust Fund financing before beginning a project?

   (b) If so, please cite examples of improvement projects which have waited more than one year, accompanied with the length of time waited?

   (c) If not, how are airports financing existing needs, i.e. tax-exempt bonds, private loans, and how have methods of airport improvement financing changed in recent years?

3. Have you studied any alternative uses of the Trust Fund, other than the current airport grant program, i.e. loans from the Trust Fund or use of the Trust Fund to reimburse airports for improvement costs incurred while awaiting Trust Fund funding? If so, what are your findings and recommendations?

4. The FAA is in the process of modernizing the air traffic control equipment and facilities, including new radar and communications systems, as part of the National Airspace System (NAS) Plan. According to the General Accounting Office, the delay in this modernization could cause the cost of the System to reach $24 billion by the year 2000.

   (a) What impact do the delays in air traffic control modernization have on our current safety and capacity?

   (b) What concerns are raised by the increased NAS costs which would need to be paid out of the Trust Fund?

5. What is your prognosis for the future of our aviation system with regard to safety and capacity? Does the availability of Trust Fund financing affect your prognosis?

6. As a result of the aviation tax reduction trigger passed last year, certain aviation excise taxes will be cut in half if certain Trust Fund appropriations are not 85% of their authorized levels for fiscal years 1988 and 1989. In fiscal year 1988, the Trust Fund appropriation was only 77% of the authorized level. The current House-passed version of the fiscal year 1989 appropriation is only 81% of the authorized level. Therefore, it appears that aviation excise taxes will be reduced in 1990.

   (a) Is the authorized Trust Fund program level adequate to maintain and improve our air system?

   (b) If Congress is appropriating less than the authorized level, what is the impact?

7. The effect of a reduction in aviation excise taxes in 1990 may be a reduction in Trust Fund financing to increase capacity, modernize equipment and conduct research and development.

   (a) Please give specific examples of how the decrease in available Trust Fund financing will affect our airport and airway system.

(b) When will we feel the effect of underfunded programs and will the harm be irreparable?

(c) Assess the effectiveness of the aviation excise tax reduction trigger in encouraging Trust Fund financing. Should we extend the trigger to include 1990 appropriations?

(d) Should the tax trigger be repealed?

8. In your testimony, you indicate that it is incumbent upon the Congress to come up with some way to require funding from the Airport and Airway Trust Fund. In addition to your stated support for taking the Trust Fund off budget, what other legislative changes do you recommend should be considered by the Congress?

Your attention to this matter is greatly appreciated. If any assistance is needed, please contact Susan Athy at 225-5522.

Sincerely,

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/sal

AOPA
AIRCRAFT OWNERS & PILOTS ASSOCIATION
421 Aviation Way, Frederick Municipal Airport, Frederick, MD 21701, Telephone (301) 695-2000/Telex 89-3445

October 20, 1988

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OCT 25 1988
Ways and Means
Subcommittee on Oversight

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for the opportunity to provide the Subcommittee on Oversight additional information regarding the operation and future status of the Airport and Airway Trust Fund. Following, we will address each of the questions posed in your letter of September 13, 1988.

1. (a)(b) The projects that need to be financed immediately are those capital improvement projects that will provide additional safety and/or capacity. For example, single runway airports where pavement is rapidly deteriorating to the point of posing a safety hazard should receive high priority. Similarly, funding requests for projects at airports that are experiencing capacity related problems should receive appropriate priority. Projects such as building short parallel runways to accomodate commuter and general aviation aircraft operations would not only serve to increase overall airport capacity, but would result in increased service to all users system wide.

   Additionally, reliever airports surrounding the 22 airports identified by the Federal Aviation Administration (FAA) as being capacity constrained should be closely examined and evaluated on a case-by-case basis. These airports are critical to relieving traffic at hub airports and must receive high priority. Extended runways, precision instrument approaches, enhanced approach and runway lighting at many airports, and expansion of general aviation aircraft parking aprons are examples of projects that would greatly improve safety and efficiency. Moreover, they would enhance the capacity of the airport systems serving metropolitan areas and should be afforded appropriate attention.

2. (a) Since most airport sponsors cannot afford to undertake large capital improvement projects without federal assistance, the majority wait until federal aid is approved prior to proceeding. In the case of land acquisition, if FAA does not initially fund a project, the airport sponsor has no assurance that it will be reimbursed at a later date if it decides to proceed without federal assistance. An exception to the rule would be a needed project relating to airport capacity where the FAA agrees to issue a "Letter of Intent" to fund the project at a later date, thereby allowing the airport sponsor to proceed with the capital improvement project. Another example is the purchase of land for airport development.

As previously noted, an airport sponsor may purchase land for airport expansion with sponsor funds and be reimbursed at a later date for all or a portion of the purchase cost. However, this type of arrangement is subject to FAA rules and procedures. Normally, projects of this type are put on hold until grant money is made available.

(b) There are examples of airport projects which have waited for more than one year for funding. They are primarily general aviation and reliever airports which are not guaranteed federal dollars each year. (See attachment A)

(c) Large airports are clearly in a better position to fund capital improvement projects without federal assistance. Air carrier airport proprietors can usually negotiate the cost of running the airports with their airline tenants, whereas general aviation airports do not have comparable resources. Although many municipal airport sponsors and airport authorities have bonding authority, it is still difficult for smaller airports to fund expensive projects in this way.

3. AOPA has examined alternative uses for Trust Fund monies. The basic problem to be addressed is that there are simply more eligible general aviation airport projects than there are trust fund dollars appropriated. In the State of Texas, for instance, it is reported that there are between 200 and 300 airports which will not receive any federal assistance for worthwhile projects. In FAA's Western-Pacific Region which includes California, Nevada, Arizona, and Hawaii, there are 420 public-use airports, of which only 290 are eligible for federal grants. During the past fiscal year, FAA only approved a total of 154 grants nationally and many airports received more than one grant. A higher level of appropriations, especially to general aviation facilities, to meet existing demands for project funding requests clearly is desirable.

   Further, the Congress needs to re-assess the existing formula by which the FAA grants-in-aid program is administered, especially in view of the large number of applications from sponsors that remain unfunded each year. Many airports are not eligible to apply for trust fund dollars because they are not included in FAA's National Plan of Integrated Airport Systems (NPIAS). In fact, only about half of the nation's public-use airports are included in this plan. AOPA would support an airport loan program which would primarily be used for items that are ineligible under AIP funding guidelines.

4. (a) Delays in air traffic control modernization will have a decidedly negative effect on safety and capacity within the National Airspace System (NAS). Safety and capacity are so intuitively linked, it hardly seems necessary to gather empirical data as proof of their interdependence. When the capacity thresholds of a system, such as a NAS terminal facility, are being approached or exceeded, built-in safety margins begin to break down.

A primary thrust of FAA's effort toward capacity enhancement revolves around new technologies that will allow for reduced separation standards. Current standards are based on the demonstrated capabilities of existing equipment. Unfortunately, the equipment utilized by FAA in the critical terminal areas, is old and sadly inadequate for today's, and especially tomorrow's, traffic densities.

Programmed modernization efforts are the victims of excessive delays and setbacks. The most recent example is the Advanced Automation System (AAS) which, had it proceeded as scheduled, could have produced substantial improvements in the ATC System. Now, because of excessive delay, it may be overtaken by new technological advancements.

Furthermore, the FAA is famous for making grandiose plans for modernization using un-proven technology and, when experiencing difficulty, then tries to force continuation of the project with old equipment and staffing shortages. A classic example of this is seen in the sadly mismanaged Flight Service Station (FSS) modernization program. The FAA has littered this project with a plethora of broken promises and failed expectations.

Should the FAA also attempt to reduce separation standards using a patchwork of old equipment and software built solely on band-aid enhancements, safety will suffer and capacity gains will be superficial and dangerous. In essence, any delay in true modernization will cause reductions in current levels of safety and capacity.

(b) Should the GAO projected increase in NAS costs become reality, it would severely impact future developments. If funds have to be diverted out of the Trust Fund to finance delays and mismanaged projects, we are concerned that required future developments will go unfunded.

The obvious precursor of this situation is the Microwave Landing System (MLS) fiasco, which the FAA is currently trying to resuscitate. We cannot afford to make ill-conceived change, for change sake. The FAA must properly assess the true value of developing future programs for the NAS in terms of need, workability and safety. Another valid concern arises when you consider that the procurement processes for the NAS are in need of extensive overhaul, making it more responsive to the needs of the system. Lack of future funding, mismanaged or needless programs, and cumbersome procurement procedures have and will continue to have a deleterious effect on the future of the Trust Fund.

5. The future of our National Aviation System is threatened by mismanagement and lack of funds. We will not be able to maintain the high standards of safety that have been established or meet the increasing demands on the aviation system unless adequate funds are authorized. Trust Fund monies must be released and returned to the aviation community before irreparable damage and further degradation of the aviation system occurs.

6. (a)(b) As a general statement, the authorized Trust Fund program level is currently adequate. However, unless 100 percent of that authorized is appropriated, we will neither maintain, nor improve our aviation system. As user demands on the system continue to increase, the negative impacts of delayed safety and capacity enhancement programs will be magnified. The United States cannot offer an alternative, comparable mode of transportation to meet current user requirements. As the airport and air traffic systems degrade, users will be forced to stay on the ground or take calculated risks. The potential costs to the nation are unnecessary and unacceptable.

7. (a) Many of the projects being undertaken by the FAA today will have their progress severly retarded by decreased available funds. For example, weather observation and prediction programs are very important to the pilot, especially during instrument meteorological conditions (IMC). Projects such as the Automated Weather Observing System (AWOS), Terminal Doppler Weather Radar (TDWR), Next Generation Radar (NEXRAD), and other weather research support would benefit from better funding allocation. It is unfortunate when vital safety enhancing programs are slowed or even stopped for lack of funding, when funds are indeed available.

   (b) As was pointed out above, we are already feeling the effects of under funding by not having adequate access to the Trust Fund. The damage done so far is not insurmountable; however immediate action is required. As of October 14, 1988, the total amount of airport federal financial assistance being requested of FAA by airport operators throughout the country was $3,168,602,871; with a grants-in-aid program that is currently authorizing but a third of this amount, it is obvious that most of the requests for grant monies cannot be accommodated. The lack of adequate airport capital for development and improvements has resulted in a few airport proprietors implementing exclusionary user fees and reducing the number of hourly arrivals. While such practices may appear to be logical fixes, they are only short-term efforts that will ultimately have a negative effect on many other parts of the system. Unilateral actions, taken by individual municipalities or air traffic facilities, do not consider the whole NAS. We must develop a National Aviation Policy which adequately addresses the needs of all users. We must not allow an artificial lack of money to be the cause of NAS safety and capacity deterioration.

   (c) The tax-trigger should not be delayed to include FY90 appropriations. It remains to be seen if Congress and the Executive Branch will find a way to spend the funds necessary to avoid implementing the trigger. Yet, the integrity of the trust fund can only be restored (in the eyes of the users who pay into the fund) by the "use it or lose it" concept embodied in the existing trigger. The Appropriations Committee should fulfill the intent of the trigger. Trust Fund monies must be adequately spent for their intended purposes.

8. AOPA would like to see the trigger re-enacted for FY90 and FY91. This would ensure that the Executive Branch would ask for and Congress would appropriate the monies that are intended for the necessary safety improvements in the aviation system. The goal should be to appropriate 100 percent of authorized levels.

Again, we appreciate the opportunity to provide this information to the Subcommittee and hope that it proves helpful. Should you need additional information, please do not hesitate to call on us immediately.

Sincerely,

Stephen W. Bassett
Senior Vice President
Government & Technical Affairs

Attachments

Attachment A

Following are random samples of airport projects which have not progressed beyond the pre-application phase. Many more exist which deserve Congressional attention.

Airport/Type		FY of Pre-application	Funds in millions	Development Code	Description
Buena Vista, CO	GA	1983	3.547	C	overlay runway, install runway lighting, acquire land, construct and light new runway, VASI, REIL
Hopkins-Montrose County, CO	GA	1979	1.252	C	acquire land, construct and light new runways, Runway 7/25 VASI, REIL
Alabaster, AL	R	1980	6.059	D	acquire land, extend runway, construct new runway, overlay Runway 15/33
Austin Executive TX	R	1986	11.340	F	acquire existing privately owned reliever airport
Dalhart, TX	GA	1984	2.482	C	reconstruct and light two runways
Ft. Worth, TX airport	R	1982	5.634	F	construct new reliever
Mt. Pleasant, TX	GA	1985	1.467	B	reconstruct runway, build taxiway and apron
Uvalde, TX	GA	1980	1.550	B	reconstruct Runway 5/23, new apron, drainage

Attachment A
(continued)

Attached is a print-out from FAA of all pre-applications on file for airport planning projects and airport improvement projects. The print-out lists individual airports grouped by region. The airport name and locaton is identified, as is the airport classification:

P Primary Airport

CS Commercial Service Airport

R Reliever Airport

GA General Aviation Airport

The first two digits of the pre-application number indicate the fiscal year in which the pre-application was filed. The Development Code indicates the type of project:

A Safety/Security

B Reconstruction

C Airport Standards

D Upgrading

E Capacity

F Capacity-New Airport

G General Aviation-New Airport

P Planning (Master Plan, etc.)

[Submissions for the record follow:]

James E. Gaffigan
Vice President, Governmental Affairs

American Hotel & Motel Association

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August 24, 1988

The Honorable J. J. Pickle
Chairman
Subcommittee on Oversight
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

We appreciate the opportunity to provide comments on the operation of the Airport and Airway Trust Fund.

The American Hotel & Motel Association (AH&MA) is a federation of state and regional lodging associations including approximately 9,000 properties and representing almost 1.4 million rentable rooms. AH&MA provides operational, technical, educational and marketing services, as well as governmental affairs representation, to the lodging industry.

We join with the airline and airport industry to express our concerns because we share common customers - the traveling public. We are vitally interested in maintaining an adequate transportation infrastructure to ensure travelers a safe and enjoyable experience, whether the trip purpose is business or pleasure.

Taxes paid by air travelers for the express purpose of funding the maintenance, improvement and growth of our airports and airway systems remain unexpended. These same air travelers are subjected to delays and other problems in service directly related to airport capacity and the system's equipment.

The Congress decided wisely to put the pressure on by creating a trigger mechanism to reduce the amount of tax collected if it was not spent as designed. While we applauded that action, many concerned with air travel find the situation to be "between a rock and a hard place." Yes, the tax reduction should be triggered when the funds have not been made available. Yes, the money is needed for airport projects and a tax reduction threatens to reduce the necessary pool of funds for these projects. The key seems to be inserting one word - the pool of <u>available</u> funds.

On behalf of hotel and motel guests, many of whom are air travelers, we applaud the Subcommittee's efforts to redirect the focus of the discussions on the airport and airway trust fund. Above all, safety must be the goal - not the appearance of the federal budget. The safety goal can only be met if enough funds are expended for improvement at existing airports, expansion of airport capacity, and improvements in all systems, facilities and equipment that ensure air traveler safety.

It appears to be necessary to consider budgetary reform that would facilitate the use of the trust fund or require additional appropriations to ensure that our air transportation system is capable of handling the increasing number of travelers. In fact, additional appropriations may be step one but it is unlikely to solve a continuing problem. Planning of a long range nature is essential and the present federal budget and appropriations process is not conducive to long term commitment.

We appreciate the opportunity to comment and the committee's interest in reviewing the future of our airports and airways.

Sincerely,

James E. Gaffigan

JEG/ta

Statement by Robert A. Blair on Behalf of
Americans Against Unfair Airport Fees
to the Ways and Means Committee, Oversight Subcommittee

Mr. Chairman, I thank you for the opportunity to submit testimony regarding the Airport and Airways Trust Fund. Americans Against Unfair Airport Fees (AAUAF) is a national coalition with 475 members that represents over 800 businesses. These businesses, which are both large and small, include hotels, car rental agencies, parking operations, and travel and tourism companies. In addition, two major consumer groups are also members, the Consumer Federation of America and the Aviation Consumer Action Project. One of the goals of this coalition is to secure legislation which would require that the nation's airports only impose access fees on businesses that are "reasonable and not unjustly discriminatory."

The Members of AAUAF believe that it is in the best interest of all, including private businesses and consumers, for the nation's airports to be adequately funded in order to meet increasing capacity and safety needs. However, because airports are governmentally created monopolies, it is also imperative that they be closely supervised and monitored in order to assure that they are not misused or become the captives of special interests. In your review of the Airport and Airways Trust Fund, we urge that you take a comprehensive look at the flow of funds to the airports from all sources to determine if all the goals of the program are being met.

The creation of the Airport and Airways Trust Fund has been a tremendous benefit for the airports, a benefit which we applaud. It has provided billions of dollars for improvement projects, and with the recent reauthorization of the program, it will provide future funding at almost $2 billion a year. However, the Trust Fund is not the only source of federal funding for the airports. They also rely heavily upon tax-exempt bonds. According to the June 7, 1988, Airports newsletter:

> Use by airports of bonds to raise capital for development is rising in 1988 over 1987 levels, said a speaker at the American Association of Airport Executives' annual conference in Las Vegas. Louis Ambrosio, Senior Vice President at Donaldson, Lufkin & Jenrette, said airports have issued the same amount of debt in the first five months of 1988 as in all of 1987, about $1.2 billion. Use of tax-exempt bonds by airports again is increasing now that Congress has finished with changes to the tax laws, which had led some airports to rush bonds to market ahead

of schedule, especially in 1985. Airports issued $2.9 billion in debt in 1985, $500 million in 1986, and $1.2 billion in 1987, Ambrosio said.

This massive "double-dipping" by the airports into the federal Treasury apparently is insufficient from their point of view. They have recently embarked upon an indirect raid on the Treasury which could reduce federal tax revenues by $77 million or more a year.

The airport "end run" is simple, but effective. Airports, at the urging of their trade associations and in increasing numbers, are imposing excessive and discriminatory access fees on many off-airport businesses. The fees of up to 10 percent of gross receipts are levied solely for the privilege of driving courtesy vans over the public roadways to pick up and discharge passengers at the airports. The fees are unfair because they have no relationship to the benefits received or the costs associated with the activity. For example, a 10 percent gross receipts fee on off-airport rental car companies can result in one customer being charged $4 on a $40 rental, and another customer $40 on a $400 rental, yet both customers have used the airport in exactly the same way--one arrival and one departure. In addition, the off-airport companies receive no additional benefits for these new fees, and do not share even the same advantages as on-airport companies, such as sales booths, parking, advertising privileges, and, most importantly, direct access to air travelers.

In essence, these excessive and unfair access fee are a circumvention of an existing federal prohibition (49 U.S.C. 1513) against the airports charging air passengers direct or indirect "head taxes." By imposing excessive fees upon the businesses that provide valuable and necessary services to the air travelers, the airports are circumventing the federal prohibition, and also, reducing federal tax revenues.

The imposition of these fees is spreading rapidly, and will eventually be embraced by all major airports. Within the last year, the number of airports imposing, or proposing to impose these fees, has increased from 3 to over 40.

The following example provides an estimate of the potential annual federal tax drain if all airports were to apply a 10 percent gross receipts fee to one major sector of the off-airport businesses--car rental companies.

- Estimated gross receipts of off-airport industry $2,850,000,000
- Estimated pre-tax income $ 228,000,000
- Estimated federal corporate tax $ 77,500,000
- Estimated net after tax income $ 150,500,000

If a 10 percent gross receipts fee is applied, the $285 million raised by the airports would substantially exceed the net income of the industry, plus the federal taxes paid. Since airport fees are deductible for federal tax purposes, the net effect of the airports' fees would be for the federal Treasury to stand to lose up to the full $77 million in corporate taxes.

Undoubtedly, the off-airport companies would fight to save their businesses. One of the consequences of this could be that the companies will have to raise their rates charged to match the airport taxation of their estimated income. However, the rental car business is so competitive (see attached article) that many businesses will fail if they do not keep their rates competitive, thus eliminating any possibility of their being FEDERAL taxpayers.

Other events could substantially increase the federal revenue loss beyond $77 million:

- The off-airport car rental business has shown significant annual growth, which should continue in future years. However, excessive and discriminatory airport fees might produce slowed or negative growth.
- Some airport managers have indicated that they would like to <u>double</u> the gross receipts fees to 20 percent. This, too, is likely to become a national trend at all airports.
- Currently, the airports only apply excessive gross receipts fees to car rental firms, but they have indicated that other off-airport businesses, such as parking operations and hotels, ultimately will be included.

Mr. Chairman, the airports have put a new twist on the old practice of double-dipping. By their use of the Trust Fund, tax-exempt bonds, and excessive fees which reduce federal revenues, they are engaged in a massive "triple-taking" from the federal Treasury. However, in spite of this substantial federal support, the airports argue that the U.S. Congress does not have the right or the jurisdiction to require that the fees they charge must be "reasonable and not unjustly discriminatory."

As the Committee considers the various revenue streams which pump federal monies into the airports, you should also consider whether basic rules of fair play and competition should be imposed upon them because of their existence as federally-supported monopolies. If the airports are to continue to receive substantial federal funding, we strongly urge that their dealings with consumers and privates businesses be controlled by principals of reasonableness and nondiscrimination. This would be consistent with one of the Congressional findings for the Airport Improvement Act (49 U.S.C. 2201 (5)) which provides that airports are to be administered in a way to foster "competition" and to prevent "unjust and discriminatory practices."

Industries

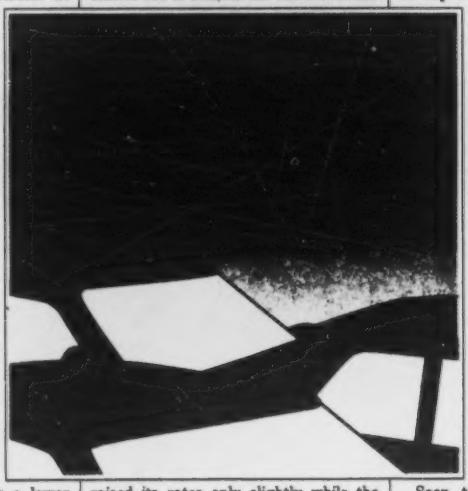
CAR RENTAL

SMALL FRY START NIPPING AT THE WHALES OF AUTO RENTAL

Just when the Big Four thought it was safe to raise rates. . . .

For the rental car industry, it's like a dream come true. After years of vicious price competition, the major companies have done a U-turn, raising U. S. rental fees by more than 10% since early 1986 while holding cost increases to about 7%. Operating profits at industry leader Hertz soared 268% last year. Budget, which went public in May, had a 178% jump in net profits in the first half. And when Allegis Corp. unloads Hertz to concentrate on the airline business this fall, the rental-car company that was viewed as a risky investment at $587 million in 1985 should bring at least $1 billion. So what's there to worry about?

Alamo, Dollar, Thrifty, and General, that's what. These traditionally tourist-oriented companies are taking advantage of the majors' recent price hikes to home in on the backbone of their business—the corporate customer. Of the larger second-tier companies only Thrifty Rent-a-Car is public, so there are no numbers to prove how much they've grabbed. But they're getting attention. "With rates going up, we've identified a need to look at some of the excellent regional and off-airport companies that have more attractive prices," says Rod Jarvis, who manages $1 million in annual car rentals for Waste Management Inc. in Oak Brook, Ill.



HOLDING THE LINE. The smaller renters' main advantage is a lower cost structure. Hertz owns 92% of its car fleet, while Avis and National—who, with Budget, make up the industry's Big Four—own more than 60%. Thus, when the 1986 tax law eliminated the investment tax credit and lengthened depreciation schedules, the big companies virtually had to raise rates. Smaller renters, by contrast, often own fewer than half their cars, with the rest held or leased by franchisees. Less buffeted by tax changes, Thrifty's earnings rose 30.8% in 1987's first quarter.

The smaller operators' other low-cost strategy has been staying away from airports. In their quest for corporate-rate customers, who account for up to 65% of their billings, the Big Four typically locate there. But they pay a stiff price—10% of their locally generated revenues, plus rental fees for desk space and parking. The smaller companies avoid these charges by driving customers to their cars, outside airport gates.

Alamo Rent-A-Car Inc., based in Miami, typifies what many corporate customers see in smaller car renters. It has raised its rates only slightly while the Big Four have hiked theirs steadily—in some cases reviving mileage caps and adding surcharges of $2 to $10 a day in high-cost cities. Elsewhere, they've imposed deductibles on insurance, or begun charging for it where it was once included with the rental fee.

As a result, Alamo's rates for corporate customers of $28 to $35 a day, depending on car size, now average about 30% less than Hertz's in many major markets. And Chief Executive Michael S. Egan boasts of "free unlimited mileage in every U. S. city we serve." Alamo is entering 18 new markets this year, including Detroit and Baltimore, and intends to serve the 100 largest U. S. travel destinations by yearend 1988. It already has 60,000 rental cars vs. Hertz's 160,000 in the U. S. Dollar Rent a Car has 46,000, in 450 locations.

TARMAC TAX. The small rental companies still face obstacles in trying to muscle into the majors' corporate business. One big problem is a fee that some airport authorities want to impose on off-airport companies. Airports in some big leisure areas now get up to 30% of their revenues from the Big Four, and those companies have been pushing these airports to even the score. With Alamo now the No. 2 renter at Florida's West Palm Beach Airport, "we have four major concessionaires telling us they might have to move off-airport too," says Gordon P. Selfridge, an assistant attorney for Palm Beach County.

Palm Beach has imposed an 8% fee on off-airport car rentals which, Selfridge figures, could cost Alamo $900,000 a year. A federal court banned a similar fee at Sarasota Airport, and General Rent A Car Inc. and others are suing to have Palm Beach's thrown out as well. But Sarasota is appealing, and Selfridge thinks that if it prevails, "a lot of other airports" will also demand fees.

The Big Four aren't waiting for the courts, however. To meet off-airport competition, Budget is now discounting its corporate rates in Florida, a small-renter stronghold. And Hertz is boosting advertising on its $300,000 in free liability insurance vs. about $25,000 for many smaller firms. "You may save $10 a week renting with Alamo in Florida, but you're left with a liability risk," says Frank A. Olson, who is chairman of both Hertz and Allegis.

Soon, too, the small car renters may have to deal with a fifth nationwide competitor, Firestone Tire & Rubber Co., which plans to get into the business through its 1,400 company-owned auto service centers. They also face an uphill battle persuading business customers—a finicky lot—to put up with the inconvenience of off-airport rentals. But the small fry have proved at least one thing. In a fast-growth industry—one in which revenues rose 20.3%, to $6.5 billion last year—being bigger isn't always better.

By James E. Ellis in Chicago

ROB DOYLE/BW

WRITTEN COMMENTS

HOWARD STANBACK, PH.D.

ACTING COMMISSIONER

DEPARTMENT OF AVIATION

CITY OF CHICAGO

The Committee on Oversight has invited written comment on the operation, effectiveness and future status of the Airport and Airway Trust Fund. As operator of three airports, the City of Chicago is grateful for the opportunity to comment on a subject so critical to the health and future of the nation's air transport system.

The City of Chicago believes that Federal performance in administering the Trust Fund has been seriously misguided in three key areas:

1. At a time when responsible aviation officials at all levels of government recognize serious deficiencies in airport capacity all over the country, Congress continues to underfund the AIP.

2. In the face of Federal Government's failure to make effective use of AIP funds that are accumulating in the Aviation Trust Fund, Congress chose not to insist upon more effective performance but rather created a trigger tax mechanism.

3. Having precipitated major changes in the dynamics of airport development financing when it deregulated the airlines, Congress has no plans to deal with the consequences of those changes.

The remainder of this paper explains these points more fully.

CONGRESSIONAL AIP APPROPRIATIONS

The Aviation Trust Fund was developed to provide a stable funding source for airport development programs and airway improvements through dedicated user taxes. Had the Aviation Trust Fund been properly administered, we believe that significant airport development projects across the country would either be on line or underway, providing substantial relief to capacity and delay problems affecting the nation's air transport system. However, each year the Administration habitually requests and Congress appropriates less money for aviation programs than is authorized under AIP legislation. In the last five years alone, aviation programs were underfunded by nearly $2 billion. During fiscal year 1988, aviation program funding was only three-quarters of the amount authorized. It is apparent that similar underfunding will occur in fiscal year 1989.

Despite both the availability of revenues and the consensus among aviation officials that capacity projects are critical, appropriations from the Aviation Trust Fund have simply not been sufficient to meet the air transport system's growing needs. As a result, capacity problems, with their attendant congestion and delays, are the interest the public receives for Congressional underspending of the existing dollars.

AVIATION TRUST FUND SURPLUS

In the face of demonstrated airport capacity and noise abatement-related needs, the Federal Government has allowed a surplus of nearly $6 billion to accumulate in the Aviation Trust Fund. Here again, the purpose of the Airport Improvement Program has been grossly abridged. Efforts to balance the Federal budget have enjoyed a higher priority than critical airport development programs and air traffic control improvements. The Administration has consistently balanced the Aviation Trust Fund surplus against the overall budget deficit in order to make the deficit appear smaller. In response, Congress has adopted a trigger mechanism to automatically reduce aviation taxes if aviation programs are not funded at or near the full authorization levels.

During Congressional debate in 1987, the City of Chicago supported the trigger tax for two reasons: to create an incentive for aviation spending at authorized levels by creating a disincentive for cuts in spending made as a means to "reduce" the federal deficit; and secondly, to provide consumers protection. As long as aviation tax proceeds go unspent, it is simply unreasonable for consumers to finance a surplus. For these reasons, the City is inclined to continue to support the trigger mechanism.

Yet in light of FY 88 and FY 89 appropriations it is apparent that the trigger mechanism did not stop cuts in aviation funding. For Congress to view the trigger tax as a final solution would be an abdication of responsibility. The problem is not the tax but the failure to spend its revenues. With a nationwide backlog of airport capital projects, it simply makes no sense to reduce the available pool of funds. Congress must insure that the trigger mechanism does not obscure the need for a real solution -- freeing aviation spending from budgetary constraints.

THE CHANGING DYNAMICS OF AIRPORT FINANCING

Deregulation of the airline industry has resulted not only in rapid air travel growth but is gradually and fundamentally altering airport development financing. This, in turn, will increase the demand nationwide for Aviation Trust Funds. In order to illustrate these dynamics, I would like to briefly describe Chicago's experiences.

The City of Chicago is now in the midst of a $2 billion development program at O'Hare International Airport. The goal of the program, which has over 90 separate projects, is to bring landside (terminal/roadway) capacity into balance with airfield capacity. With these improvements, O'Hare will be able to accommodate existing and forecast increases between now and the year 1995.

Given uncertainty in federal funding, the City, like several other major airports, pursued alternative sources for financing airport development. With O'Hare's central and dominant location, the City was able to raise capital for the O'Hare Development Program essentially through user fees. Only $24.6 million of federal AIP funds (2 percent) have been used in this massive program although final program costs will exceed $2 billion. Development funds were raised by airline backed revenue bonds.

As a responsible airport operator, the City is now focusing on planning to ensure that O'Hare will be prepared to accommodate aviation demand into the 21st century. However, the factors that enabled the City to finance the current O'Hare Development Program are shifting and will have an impact on financing future development programs. As we enter into a new planning phase, one thing is certain: we cannot presume that the airlines will continue to bear 98% of airport capital improvement costs.

As airport operating costs assume an increasing role in the overall airline financial and competitive structure, the pressure will continue to mount on airport operators to maintain a competitive financial position relative to other hubs. Consequently, the City of Chicago must closely monitor the operating costs of other airports who are our natural competitors to insure that airline operating costs at O'Hare, including capital improvement projects, do not reach levels that force carriers out of the Chicago market.

Simply put, airlines must continue to find O'Hare a cost effective airport at which to operate. Another byproduct of deregulation, the proliferation of satellite hubs, could also affect airport financing. Carriers are looking for airports at which to hold dominance. O'Hare has twice felt this trend with Delta's development of a hub in Cincinnati, and recently, the new Northwest hub in Milwaukee. Clearly, the increasing number of hubs intensifies the competing interests among airlines. The effect this will have on airport financing remains to be seen.

The uncertainty in airport financing created by deregulation is not only being felt at O'Hare. In the near future, the City will need to confront this issue as we prepare to implement a development program at Chicago Midway Airport.

Midway was the world's busiest airport until it lost its title and the majority of its activity to O'Hare in 1961. As a prime beneficiary of deregulation, Midway Airport has been transformed from a near ghosttown to a post deregulation satellite hub. Today, Midway is one of the fastest growing airports in the country.

It is important to recognize that Midway Airport, which recently celebrated its 60th anniversary of commercial service, was not originally designed to accommodate today's standard of air carrier commercial aircraft. Consequently, airport improvements are needed to

upgrade terminal facilities for passenger/aircraft growth experienced in today's jet age. To insure that Midway continues to efficiently and safely handle existing and future activity, the City will initiate a Master Plan Study this year.

As activity levels at Midway began to sky-rocket in the early 1980's, the City infused significant portions of O'Hare entitlement AIP funds into Midway improvement projects. However, due to growing needs at O'Hare as well as pressure from air carriers, more and more of these funds will have to remain at O'Hare. To finance the Midway development program that grows out of the Master Plan process, the City will be challenged to develop a unique financing package composed of a combination of federal/state funds, private investors and airline backed bonds.

The implications of the changing dynamics of airport development financing upon the Aviation Trust Fund are enormous. Chicago, along with airports across the country, will require a bigger and fairer share of Federal funds if capital projects critical to the vitality and safety of the nation's air transport system are to be implemented. Yet Congress has made no plans to deal with the consequences of these changes. Congress has yet to even resolve funding for the existing backlog of airport development projects. If current congestion and delay problems have failed to compel Congress to free aviation spending from budgetary constraints, then anticipation of future funding problems must.

Congress must respond to the fact that Chicago and other airports can no longer afford to subsidize improvements at other airports or to simply allow our contributions to build up the Aviation Trust Fund surplus. As the alternative funding sources the City relied upon in the past change, we must obtain more Federal funds. O'Hare is the largest single contributor to the Aviation Trust Fund, providing 20% of its overall revenues. Yet, O'Hare received an average of only 0.75 percent of the total AIP obligations. O'Hare will require a better Federal return rate than the 13 cents for each dollar that we have averaged over the last several years.

The City's traditional allocation of federal funds provides insight into how demands on the Trust Fund will change. The City estimates that O'Hare International Airport alone contributed $582 million to the Aviation Trust Fund from 1983 through 1987. For all three of Chicago's airports combined we received $65 million in entitlement funds for this same period. That's a return rate of only 11%. From 1983 through 1987, O'Hare received less than $4 million in discretionary funds, Midway received $2.7 million discretionary, and Merrill C. Meigs Field, our lakefront airport, received no discretionary funds whatsoever. Despite growth in aviation traffic in Chicago, noise impacted schools received a shamefully low $3,236,484 in AIP noise abatement discretionary funds for school soundproofing from 1983 through 1987 compared to the minimum of $5,000,000 per year that is needed. Clearly, there is a tremendous gap between our contribution and receipt of Federal funds. If adequate capacity is to be maintained at O'Hare and Midway, this gap must be narrowed dramatically.

In a separate AIP funding category, Facilities and Equipment, the City reviewed the portion allocated to the FAA Great Lakes Region. Despite a need to upgrade aging and outdated equipment, the Chicago FAA received only $69.5 million over the FY82-FY87 period, or a mere 1.1% of the F&E authorized level during the same period. Chicago has and will continue to do our part to insure that our airports can meet the air traffic demands of deregulation. However, the FAA must keep pace with the capacity created by our airport improvement projects. The future role of Chicago's airports in the nation's system will be measured by the allocation of F&E funds to Chicago air traffic control.

In 1988 the City initiated a more aggressive campaign to increase Chicago's share of discretionary funds. As a first step, our efforts were successful. Noise impacted schools received a record level $5.868 million for soundproofing. O'Hare received $5.175 million in discretionary, and Midway received $2.2 million. For Chicago, 1988 has been a banner year when compared to previous years. Yet, even 1988 levels are overshadowed by the estimated $152 million O'Hare will contribute to the Aviation Trust Fund in 1988. Consequently, in the near future the City will be submitting a comprehensive five year Airport Improvement Program to the FAA for safety, capacity, noise abatement, and air traffic control projects at Chicago's airports. The ability of Chicago airports and FAA air traffic control to fulfill our respective roles in the nation's air transport system and respond to future aviation demand, along with the environmental integrity of the surrounding communities, will depend on the Federal response to our requests.

At a time when the need for new and improved runways, taxiways, aprons and associated facilities is universally recognized, the largest single source of funds to address this need remains constrained by budgetary restrictions. The primary solution to improving the nation's air transport system is capital for capacity and efficiency, and Congress holds the key to this solution. We urge Congress to continue to wrestle with the difficult problem of freeing aviation spending from budgetary constraints. And it is equally important that Congress protect the tax-exempt financing of airport projects by maintaining tax codes that facilitate airport financing capabilities.

The City of Chicago is proud of our tradition of aviation excellence and we intend to carry this standard well into the 21st century. With full authorizations and equitable allocations of the Aviation Trust Fund, we are confident this goal will be achieved.

Attachment

CITY OF CHICAGO'S AIP DOLLARS RECEIVED BY CATEGORY AND YEAR

Category	FY 82 [2]	FY 83 [2]	FY 84 [2]	FY 85	FY 86	FY 87	FY 88
ESTIMATED O'HARE TRUST FUND CONTRIBUTIONS							
1. ENTITLEMENT FUNDS [1]		$90,000,000	$102,000,000	$115,000,000	$130,000,000	$145,000,000	$162,000,000
a. ORD	$7,475,661	10,500,000	11,250,000	12,500,000 [4]	12,500,000 [4]	12,500,000 [4]	16,000,000 [4]
b. MDW	$ 517,500	538,897	1,011,195	1,562,490	1,197,970	1,724,119	2,482,917
c. CARGO [3]	-	-	-	-	-	-	1,921,508
d. MEIGS [3]	-	-	-	-	-	-	300,000
2. DISCRETIONARY FUNDS							
a. RELIEVER AIRPORTS - MEIGS	-	-	-	-	-	-	-
b. NOISE ABATEMENT PROJECTS							
1. City of Chicago	-	-	-	(Part 150)	(Part 150)		
2. Suburban	-	-	1,192,625	518,250	681,247	738,925	-
c. SYSTEM PLANNING	-	-	-	-	1,381,560	-	5,868,000
d. (UNASSIGNED) DISCRETIONARY					-	-	-
1. Primary/Cargo and Reliver Airports							
a.) O'Hare	-	-	-	3,353,265	-	432,423	5,175,000
b.) Midway	-	111,574	1,000,000	-	-	1,567,577	2,200,000
c.) Miegs	-	-	-	-	-	-	-
2. Other Airports	-	-	-	-	-	-	-
3. TOTAL RECEIVED BY CHICAGO	7,993,161	11,150,471	14,453,820	17,934,005	15,760,777	16,963,044	33,947,425
4. TOTAL RECEIVED AS % OF ORD CONTRIBUTION	N/A	12%	14%	16%	12%	12%	21%

1/ Dollars amounts shown are Federal Share. Grants with incomplete projects could increase the Federal share. (maximum 10%)
2/ FY 1982, 1983, and 1984 Federal funds were reduced due to Congress budget cuts.
3/ New entitlement category created in 1987 AIP approved by Congress.
4/ Maximum level of entitlement grant for single airport.

STATEMENT OF SUSAN RIDGWAY GARRY; CHAIRMAN, MANOR AREA NEIGHBORS ORGANIZATION AND DICK STANFORD; CHAIRMAN, AUSTIN AIRPORT WATCH
WRITTEN COMMENTS FOR THE HOUSE COMMITTEE ON WAYS AND MEANS, SUBCOMMITTEE ON OVERSIGHT, CONCERNING THE OPERATION AND FUTURE STATUS OF THE AIRPORT AND AIRWAY TRUST FUND. AUGUST 11, 1988.

Mr. Chairman, we appreciate the opportunity to submit these comments to the printed record of the Subcommittee. Susan Ridgway Garry represents a volunteer neighbors organization in the area of Manor, Texas. Dick Stanford represents Austin Airport Watch, a group of volunteers in the Austin, Texas, area who research and publicize problems connected with the proposed Austin airport at Manor.

We wish to submit these comments because, although this hearing did not deal specifically with Austin's proposed airport, many of the persons testifying at this hearing used the Austin airport situation as an example of the need for more funding for new airports. We herein present rebuttal comments to these assertions.

I. Safety.

One point brought out at the hearing is that safety of the nation's airspace is the FAA's primary mission. Following are points that demonstrate that the Manor site will be less safe than Robert Mueller Municipal Airport.

A. Major Bird Flyway.

As the National Audubon Society said in their letter, August 17, to the FAA requesting that a complete Environmental Impact Statement be done on the Manor site, "This area is in the center of the Central Bird Flyway and is known to be an important stopover area for numerous species of migratory birds protected by federal law." Even the inadequate Environmental Assessment prepared for the City of Austin by Turner Collie & Braden admitted that aircraft-bird collisions probably would occur. This reminds us of the tragedy that has been in the news during the last few months, when collision with birds in flight was responsible for downing a military jet, with casualties occurring.

B. Bergstrom Air Force Base Conflict.

One of the reasons for the unsuitability of the Robert Mueller site is said to be the conflict with flights from Bergstrom--flights by out-moded recon aircraft that may not be continued for too much longer anyway, their function being taken over by satellites. However, these Bergstrom flights occur over the Manor area as well. In addition, Manor area is in the path of flight traffic from Fort Hood, at Killeen. Many times in the past, long lines of airplanes and helicopters have flown over the Manor area, coming from Fort Hood in the north, heading for destinations further south.

C. Crop-Dusting Airplanes.

A major safety problem with the Manor site is crop-dusting. The City of Austin is not buying the farm land in the noise-impacted area all around the airport boundary. They have announced that the farmers will be free to continue to farm this land. These farmers use crop-dusters, small airplanes, to treat their crops. What safety impact will these small planes darting and swooping all around the airport perimeter have on airport safety? No one has said that crop-dusting will be prohibited. Presumably, if it is prohibited, expensive compensation will have to be paid to surrounding farmers who would be forced to use more inconvenient and expensive methods. This extra expense would invalidate projected costs.

II. Congested Air Transportation System.

A second point brought out at the hearing is the problem with "an inadequate, highly congested air transportation system." One remedy suggested was to build new airports, such as at Austin. This is an invalid point. There is no air traffic congestion at Austin, and a new airport is not needed.

The supposed need for a new airport was based on a Greiner forecast, prepared two years ago, and based on the fluke figures of Austin's boom period. The Greiner report does not provide year-by-year projections. However, a separate forecast in 1986 by the FAA does offer year-by-year projections and is already substantially off-target. The FAA projected that 2,164,000 passengers would fly out of Austin during 1987. The actual number was 1,915,770, or 11.5 percent less than forecast.

Robert Mueller passenger level has decreased each of the last eight months compared to the same month a year ago. Total passenger enplanements at Mueller this year to August 1 are down 4.2 percent compared to the same period for last year.

Regarding the growth or lack thereof of Austin, from the Department of Planning and Growth Management, as of the first quarter, 1988, Austin's annual growth rates were 0.41 percent during the first quarter, and 0.71 percent since the previous year.

III. Question Regarding Economic Prosperity.

Comments made during the hearing indicate that speakers were automatically equating a new airport with contributing to economic prosperity. However, a new, remote airport will not contribute to the economic well-being of a city in Austin's situation. In fact, a remote airport would make things worse in Austin. similar to the situation when a railroad or highway bypassed a town.

A. Bad Economic Effects for Austin.

1. One of Austin's major problems is the highest vacancy rate for downtown office space in the nation. In addition, Austin is trying to establish a downtown convention center. Austin needs to maintain Robert Mueller as a convenient link to central Austin.

2. It is being assumed that hotels will institute more limousine services than they have now, in order to reach a remote airport site, thus driving taxis out of business.

3. Austin cannot afford this airport, even with increased FAA funds. It is projected that the other portion of airport costs will be paid for by revenue bonds and the sale or lease of Robert Mueller. First, as air traffic declines or even does not rise as high as projected, the revenue bond proceeds will not be as projected. Austin, which already has the highest per capita debt of any city in the country, will somehow have to make up the difference or be in default. A debt-overburdened populace, with threatened declining bond ratings, will have to become even more overburdened to pay for an unnecessary new airport.

Currently, Austin is struggling with trying to balance next year's budget. This will be made even more difficult by the August 24 decision by the Texas Public Utilities Commission that scuttles Austin's agreement with Houston Lighting & Power to get out of the South Texas Nuclear Project. Already included in Austin's upcoming expenses were extra airport costs that it can ill afford: new employees added to the payroll to deal with new airport procedures, at the same time that current employees are being laid off; CIP water line project to the new airport; CIP project for new airport fire station, at the same time they are closing in-town fire stations to trim the budget.

B. Bad Economic Effects for Manor Area.

Numerous studies have shown that rapid growth in a small town or rural area like Manor costs more than it pays. For instance, land will be removed from the Manor Independent School District tax base. The inadequate Environmental Assessment speaks vaguely of economic benefits to be realized by the Manor area, but does not address specifically how much school tax money will be lost or how and when it will be made up. It has been said that money will be made up by other development around the airport; however, it has been shown in locations such as around D/FW that economic benefits for the surrounding area have not lived up to projections.

The permanent residents of the area will be swamped by possibly 10,000 temporary construction workers, whose possibly temporary housing arrangement (such as mobile homes) will destroy ground water with overburdening by septic tanks. In addition, this influx will place a strain on area water systems, possibly resulting in water shortages for everyone. The drastic influx of temporary residents will overburden area school systems--Manor, Elgin, Coupland, Pflugerville--possibly resulting in new school buildings being built. Then, just when the building programs are completed, the temporary residents will move on, leaving the permanent residents to pay greatly increased school taxes.

To indicate the favorable economic benefits that might be realized by the Manor area as a result of the airport, we place into the record the facts that the MISD School Board, the Manor Chamber of Commerce, and the Manor City Government all have declined to issue statements in support of the project.

IV. Effects of a New, Remote Airport on Airlines.

A. It seems to our groups, observing from the outside, that the airlines involved may not consider that the proposed remote airport will be a benefit to them. So far, as we understand it, there have been no user agreements signed by the airlines, and no revenue bonds can be issued until and unless this occurs.

B. The airlines probably will not just "eat" increased rents. The effect of the revenue bonds and airlines' increased expenses likely will be increased costs to air travelers, which will be especially felt by frequent business travelers, thus, having in turn a further depressing effect on Austin business.

C. Not only will there not be more air passengers to pay for revenue bonds, but also there will be fewer Austinites traveling by air. We have talked to many Austinites, especially business travelers, who say that if they have to spend 30 or 40 minutes driving to a remote Austin airport to fly to San Antonio, Dallas, and Houston, they will drive to their destination instead, and have their own car when they arrive, instead of having to rent a car or take a taxi. Again, there will be a decrease in enplanements, inability to service revenue bonds, and another crushing burden on Austin taxpayers.

V. No Political Consensus Regarding New Airport.

Another point that was made at the hearing was that Austin had achieved a "consensus" regarding wanting a new airport. This is not the case. This is still a divisive issue that has been brought up and defeated before, and was passed in November, 1987, only by a combination of deceptive proceedings.

A. The ballot wording, based on inaccurate population and air traffic projections, presented an either/or situation: in effect, "Either you vote for an airport at Manor, or we will expand Robert Mueller into existing business and residential districts." We even have reports that "move it" promoters told certain Hispanic residents that if they did not vote to move the airport that Austin would confiscate their lots and homes without any payment and they would have no place to live.

B. We are planning some polling projects to demonstrate that Austin, especially with recent budget problems such as the collapse of the STNP deal, does not want this unnecessary and unaffordable airport. Many who are active in Austin politics are saying that if another election were to be held now, "move it" would fail.

C. The ballot wording specifies that new airport funding must come from FAA grants, revenue bonds, and the sale or lease of Robert Mueller. The previous City Council already has transferred about $4.5 dollars from the Robert Mueller account into a "new airport account" to begin the process. As we understand it from attorneys, this could constitute an illegal use of funds and could be actionable. An Austin taxpayer could bring a derivative suit to force the City to properly use the legally mandated funds.

D. Further lack of consensus regarding the new airport in the Manor area could push the land acquisition budget far above current estimates. It has been projected that $49 million will buy land and improvements on the site, plus improvements only (not land) in the noise-impacted areas. There are various legal remedies that landowners in the area are considering. Landowners on the site have consulted condemnation attorneys and some are prepared to go as far in the court system as possible. Juries may award them much more than is planned in the budget. Landowners in the noise area are considering legal action to force the City to buy their land as well as improvements, again affecting the budget. Landowners just outside the noise-impacted areas, with such special endeavors as horse breeding, have been told by attorneys that they have very good chances of being granted considerable amounts of compensation for damages by courts.

NOTE: We enter the above points into the record--and these comments are just the tip of the iceberg—to refute testimony given at the hearing that political obstacles have been overcome.

VI. Environmental "Obstacles" Have Not Been "Overcome."

A. Our members have been working very hard to attempt to persuade the FAA to require that a full Environmental Impact Statement be done. We are encouraged by the response thus far from environmental agencies and environmental organizations. To date (August 25, 1988), official statements to the FAA recommending a full Environmental Impact Statement have been issued by the Department of Interior, Fish & Wildlife Service; the Southwestern Regional Office of the National Audubon Society; the Austin Chapter of the Sierra Club; and the office of Texas Agriculture Commissioner Jim Hightower.

We have sent criticisms of the existing inadequate Environmental Assessment and requests to ask for an EIS to other organizations, agencies, and officials, including the office of Representative Jake Pickle.

B. We have consulted environmental attorneys and environmental organizations who tell us that it is extremely unusual for a project of this size to proceed without a full Environmental Impact Statement. If the FAA decides not to require a full EIS, suit could be brought in Federal court asking for an injunction to prohibit any action until an EIS is done and asking that a full EIS be required.

Therefore, the assertion in hearing testimony, that Austin has "made great strides in overcoming the many . . . environmental . . . obstacles" of this project, is, we believe, incorrect.

VII. Robert Mueller Closing Uncertain.

Election results from November, 1987, to move Austin's airport to Manor are based in part on closing Robert Mueller. It is not at all certain that this will even occur.

A. A $2 million hangar for the State Aircraft Pooling Board is under construction at Robert Mueller. The Board, as quoted in an American-Statesman article, was "squirmish" about the November election results.

B. The Department of Interior opinion states that given the convenience of Robert Mueller and the City's investment in it, it probably will never be closed.

C. Others have noted that all the entities who have contracts to operate at the Mueller site and who do not want to move to a remote site may sue the City to force Austin to continue to honor Mueller agreements.

VIII. Problems Already Occurring with Management and Budget, Even Before Project Is Underway.

Our concluding point is that proceeding with a remote airport for Austin should not be rushed, because, in contradiction to testimony from other speakers, there are many unresolved problems--political, environmental, and financial. In addition, even before the project has begun, there is already evidence of management problems on the part of the managing firm, Turner Collie & Braden.

A. In the same American-Statesman article (June 3, 1988) that reported their selection as managing firm, was reported "concerns about a separate city project in which Turner, Collie & Braden has been involved. The City is considering suing participants in a project involving the construction of sewage sludge digesters at its Hornsby Bend facilities, city staff officials said. . . . Correcting the problem could cost $1 million."

B. The Environmental Assessment currently under review by the FAA bases its section on electric power on the assumption "that the proposed site will ultimately receive electrical power from the City of Austin Electric Utility." However, an Electric Utility Department memo (of which we have a copy) states, "It appears that there was some misunderstanding by the consultants which allowed them to conclude that city annexation would automatically extend the City of Austin electric service area, and that the Electric Utility Department had the option to serve the airport. This is not the case. We have clarified with the Aviation Department that the Electric Utility Department has no plans to serve the new Austin airport." Thus, the section on electricity for the proposed airport in the $123,681 Environmental Assessment is <u>totally wrong</u>. We believe this impugns the credibility of the entire Assessment. What does this indicate about the managerial and budgetary expertise that has been appointed to manage the rest of the airport development?

C. For a series of meetings in the Manor area, budgetary authority was not obtained through proper channels as required for City of Austin expenditures. When Turner Collie & Braden presented an unexpected bill for $44,000 for conducting these meetings, Aviation Director Tim Ward had to go before the City Council to get special authorization to pay this bill. The Council registered disapproval about how the expense was incurred and managed, but voted to authorize special payment. Again, what does this indicate for future fiscal and managerial procedures?

CONCLUSION

It is our hope that this subcommittee, in its deliberation of the operation and future status of the Airport and Airway Trust Fund, will disregard the statements regarding Austin's proposed airport made by speakers who may not know the true situation. The statements made by those presenting testimony to the effect that Austin's current airport is part of the air transportation system congestion; that there is a consensus in Austin for a new airport; that political, financial, and environmental problems have been overcome; that a remote airport will help the economic situation in Austin and Manor -- all these statements are inaccurate. We hope that our testimony presented directly from the Austin and Manor areas will help to point up the inaccuracy of some previous testimony.

We understand that the subcommittee will hold future hearings on this subject. We request to be placed on the mailing list to be notified of any future hearings. We will continue to gather information and will be prepared to present additional material to the subcommittee, if required to refute inaccuracies in the comments of other organizations.

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Founded
December 28, 1940

August 17, 1988

The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
1102 Longworth House Office Building
Washington, DC 20515

For the Record: August 11, 1988 Hearing on Review of the Operation and Future Status of the Airport and Airway Trust Fund

The National Air Transportation Association (NATA) represents the business interests of the nation's aviation service companies, commonly called fixed base operators or FBOs and on-demand air carriers or air charter companies. FBOs are perhaps the most complicated type of business in aviation today. Most FBOs are involved in a variety of aeronautical activities: sale of aviation fuel to private and business aircraft; airline refueling; aircraft parking and hangaring; repair and maintenance of aircraft; aircraft sales; flight instruction; and aircraft charter to name just a few. Even though most of our Members provide all of these services, the major profit centers for virtually all fixed base operators are the sale of aviation gasoline and jet fuel, maintenance, and the chartering of their aircraft.

FBOs and air charter companies are located on airports all across the country -- from the smallest general aviation field to the largest air carrier airport. These companies are not only concerned about airport and airway development from a philosophical standpoint, they are an integral part of the process, since they act as collection agents for the U.S. government. Each time an FBO sells a gallon of avgas or jet fuel, it is required by law to collect the federal aviation excise tax on that sale. Each time an air charter company provides its aircraft to a charter customer, that company must collect the federal passenger ticket tax. Of course, these taxes are deposited in the Aviation Trust Fund for use in airport and airspace development.

The Subcommittee should understand the very unique position that fixed base and air charter operators occupy with regard to airport and airway reauthorization. Since these companies are so geographically diverse, they are concerned with development at all airports. Not just general aviation fields and not just air carrier airports. Since one of their major sources of revenues is from fueling all types of aircraft -- private, business and airline -- they are very aware and supportive of the interests of those segments of aviation. Since air charter carriers operate in the entire airspace system, they are vitally concerned with all aspects of its development.

In early 1982, when Congress was reauthorizing the Airport and Airway Development Program, NATA expressed a number of concerns. Primary among them was a growing surplus in the Aviation Trust Fund and the Administration's efforts to use the Trust Fund to pay for more of the Federal Aviation Administration's operations and maintenance budget.

In spite of those concerns, NATA Members reluctantly agreed to support an increase in aviation user fees for two reasons: (1) the realization of the need for implementation of the NAS Plan, and (2) Administration officials repeatedly offered assurances that the Trust Fund would actually be spent for capital improvement and not held "hostage" to help balance the nation's budget.

Of course history has shown us that the Administration was unable and/or unwilling to fulfill its commitments to Congress and aviation users. While we don't want to dwell in the past, we feel it is important to understand the frustrations that existed in 1987 during the last reauthorization. While fixed base and air charter operators remained committed to modernization of our nation's airports and airways, they simply wanted more concrete assurances that their tax dollars will be spent for capital development.

History has shown that the best conceived funding program simply will not work as planned without effective protections and strong incentives to ensure that annual appropriations equal levels authorized. During the past, we have all learned a lot about penalties. NATA was a leading advocate of the so-called "two-for-one" penalty, and we are pleased it worked when appropriations fell short of authorizations. Even with the retention of the two-for-one penalty, we felt additional incentives were needed to ensure adequate spending.

The Association and its Member companies strongly supported implementation of a trigger tax to reduce tax rates on if appropriations do not meet authorizations. Even though our Members are tax collection agents, and may be forced to adapt to changes in tax rates, they are willing to play that role to help ensure full spending. In NATA view, the money should be spent on the development of the airport and airway system. However, if the spending is below authorized amounts, the taxes should be reduced rather than allowing the money to continue building in the Aviation Trust Fund.

NATA Members are extremely sensitive to the Trust Fund contribution to FAA's operations and maintenance expense. Fixed base and air charter operators remember the original intent of this Act -- to provide funds for capital improvements. They have been witnesses to the continuous attempts over the years to redirect the Trust Fund to pay for operations. Our Members would prefer a program that is exclusively capital intensive with no contribution to O & M. Such a program, of course, could be funded with greatly decreased taxes.

We realize that this type of program will never be enacted, but many of our Members still advocate this approach. At any rate, NATA Members are unanimous in their opposition to the Administration's efforts to fund 75 percent of O & M from the Trust Fund.

One final issue of concern, is taking the Aviation Trust Fund off budget. Since the unified budget does not take into account the Aviation Trust Fund and other programs that are self-supporting, NATA strongly supports efforts to remove the Trust Fund from the unified budget process. In our opinion, the flying public has been deceived, believing they pay aviation taxes to finance aviation safety and capacity improvements, when in reality these funds are used to mask the true extent of budget deficits.

In summary, Mr. Chairman, the Members of NATA appreciate this opportunity to present our views to this Subcommittee. NATA strongly supports efforts to ensure aviation tax dollars are spent for the intended purpose of airport and airway development. The trigger tax and penalty clause are two mechanisms in place to address this issue. The Association also supports removing the Aviation Trust Fund from the unified budget as an additional method to encourage the intended use of aviation tax revenues.

Sincerely,

William H. Power

William Power
Vice President
Government Affairs

FORTNEY H. (PETE) STARK
9TH DISTRICT, CALIFORNIA

COMMITTEES
WAYS AND MEANS
DISTRICT OF COLUMBIA
SELECT NARCOTICS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

Statement of

The Honorable Pete Stark

before the

Subcommittee on Oversight

of the Committee on Ways and Means

Hearing

to Review the Operation of the Airport and Airway Trust Fund

August 11, 1988

Aircraft Noise Abatement

Air travelers and pilots want safe flights. Non-travelers want quiet flights. The Airport and Airway Trust Fund should be spent to accomodate both groups.

I have three airports in my district. The largest is the Oakland International Airport. It is an excellent airport and a real asset to the district. However, I get more mail from my constituents complaining about airport noise than about any other aviation issue-- including safety.

Most people would agree that we should do everything reasonable to keep aircraft as quiet as possible. The interest of the public in aviation has to be balanced with its interest in peace and quiet. These goals are not mutually exclusive. Accomodations can be made.

Expenditures from the Airport and Airway Trust Fund to abate aircraft noise levels need to be increased. Reducing noise is as legitimate a purpose as increasing air safety and capacity. It's time that aviation accepted the reponsibility of being a good neighbor.

THIS STATIONERY PRINTED ON PAPER MADE WITH RECYCLED FIBERS

Written Statement By:

Martin J. Butler, Chairman
Suburban O'Hare Commission
1420 Miner Street
Room 206
Des Plaines, Illinois 60016

I. Introduction

My name is Martin J. Butler. I am the Mayor of the City of Park Ridge, Illinois, a 110 year old community of 39,000 residents, which is being slowly devastated by the noise and air pollution from O'Hare International Airport. I am also Chairman of the Suburban O'Hare Commission, an organization of 14 communities and 310,000 residents of the area surrounding O'Hare. In total, there are approximately 100,000 homes in the area around O'Hare, including approximately 13,000 homes in the City of Chicago, which are exposed to levels of noise of 65 Ldn or higher.

We in the O'Hare area have been living with the problems caused by the airport and the airlines since the first jet roared into the air over O'Hare. At that time, there were 219,000 people living in our communities. Many of our communities are over 100 years old, the airport has been there only 25. I point this out because the airlines are quick to charge that the airport was there before the communities, which is not the case.

This Subcommittee has requested testimony on whether funds deposited in the Airport and Airway Trust Fund are being properly and adequately directed toward current and anticipated aviation problems. In short, I will tell you that they are not.

New environmentally sound airports need to be built, air safety needs to be improved, and help is needed for the millions of people nationwide who are the victims of jet noise. While billions of dollars sit in the Trust Fund, the problems associated with air transport continue to grow. We need to spend the Trust Fund dollars to help solve these critical problems.

This statement will address our concerns about the spending of the Trust Fund dollars to protect the citizens of our communities and to improve the air transportation system.

II. The Abatement of Aircraft Noise Levels

According to the federal government, noise levels of 65 Ldn or higher are unacceptable for residential dwellings. In the O'Hare area alone, 100,000 homes are exposed to 65 Ldn or greater.

Yet, the City of Chicago, the owner of the airport, the FAA and the airlines have objected to the imposition of noise abatement measures at the airport. The City, the FAA and the airlines instead tell us that our communities should not be where they are, although they existed long before the airport was built.

Noise abatement is possible, but it is expensive. Fairness demands that those who cause the harm, the airlines and the traveling public, should pay to abate the noise which damages our communities. The Airport and Airway Trust Fund contains monies paid in by the airlines and the traveling public, and those funds should be spent to help abate aircraft noise.

A. The Impact of Aircraft Noise on Established Communities

Many of the communities I represent are over 100 years old. All of them are residential communities. When these communities were developed, O'Hare Airport did not exist. In fact, the airplane was not developed until well after many of our communities were founded.

There is no environmental buffer around O'Hare Airport. There is no area of industry or commercial activity which separates the impacted citizens from the airport. Instead, we the 400,000 City and suburban residents are the buffer. We suffer the noise and air pollution so that the City may operate its airport and collect the revenue. We receive no financial assistance from the City, operator of the airport, and no cooperation in the abatement of noise and air pollution.

Today, aircraft noise and air pollution create daily interference in the lives of the residents of these communities. In some of our classrooms, teachers must use microphones to be heard by their students, or must stop lessons during overflights. Thousands of our residents cannot sleep because of the constant jet noise from an airport which operates 24 hours a day. People cannot use their yards or open their windows during warm weather because the of the deafening noise and poor air quality. Carrying on a normal conversation, watching television or listening to the radio, are often impossible. And if a resident wishes to sell his home, he must accept a lower price, because the noise has devalued his property.

With each passing year the problems resulting from aircraft noise grow more severe. And with each passing year the airlines and the City make more money from the operations at the airport. We, the residents of the surrounding area, pay for the revenue which the City and the airlines collect. We pay for it in the devaluation of our homes and in the lowering of the quality of life in our communities. Yet billions of dollars sit in the Trust Fund unspent, dollars which should be used to help solve the problems created by air transport.

B. The Need to Allocate Trust Fund Dollars for Noise Abatement

Currently, only 10% of the annual allocation from the Trust Fund goes to fund all noise abatement projects nationwide. This year, only $126 million dollars of the Trust Fund will be spent for all noise abatement projects in the United States.

According to FAA data, from fiscal 1975 through fiscal 1986 the FAA spent 76% of the noise abatement funds available nationwide for the buy-out of property impacted by noise. During this same time period, only 11% of the federal funds were spent on soundproofing. That means that during this fiscal year the FAA will spend only $13 million nationwide on soundproofing projects.

Property buy-outs are not the answer for our communities. I represent 14 established residential communities which do not want to become industrial parks. The entire social framework of the northwest side of Chicago and the surrounding suburbs would be destroyed if a major buy-out were to occur.

And, as a practical matter, there is not enough federal money to buy out our communities. Even if the FAA, the City and the suburbs wanted a buy-out, at $100,000 per home it would cost over $1 billion to buy the impacted homes in the O'Hare area alone.

Instead, we need more federal money to be spent on developing quieter aircraft engines, on permanent noise monitoring systems, and on the soundproofing of public buildings exposed to noise.

Around O'Hare alone, there are 104 schools identified by the FAA which need to be soundproofed so that our children can receive a decent education. The soundproofing of these schools alone is estimated to cost $150,000,000 -- more money than was allocated for all noise abatement projects in the nation in this fiscal year.

There is no excuse for keeping billions of dollars locked up in the Trust Fund while jet noise is hindering a generation of young Americans. The Trust Fund dollars should be spent, and a higher percentage should be spent for noise abatement projects.

III. The Need for New Environmentally Sound Airports

When O'Hare Airport was first opened, Midway Airport in Chicago was the world's busiest. O'Hare was never intended to be the busiest airport in the world. It was surrounded on all sides by residential areas of the City of Chicago and the suburbs. When the City of Chicago developed O'Hare, it created no buffer zone between the airport and the surrounding residents.

Over the years, the City expanded the facilities at O'Hare by adding new runways and terminals. No warning was given to the surrounding communities by either the City or the FAA of Chicago's plan to accommodate the tremendous amount of traffic that now goes through the airport each day.

With the expansion of the airport's facilities, residents of our communities found themselves "across the fence" from the world's busiest airport, suffering noise, air pollution and safety problems more serious than any other area in the nation. Eventually, it took litigation by the suburbs to force the City to reveal its overall plan for the expansion of the airport.

In order to prevent the O'Hare situation from repeating itself, we need to build new airports in an environmentally sound manner. We need to acquire enough land protect the surrounding community from the operations of the airport.

These new facilities must be large enough to take the demand which cannot be accommodated at existing airports and large enough to alleviate some of the congestion at airports such as O'Hare. These new airports must be built in areas with enough airspace for controllers to keep planes safely apart.

A. The Need for a New Major Air Carrier Airport in the Chicago Region

A recent study by the states of Illinois, Indiana and Wisconsin estimates that in the coming years there will be 15 million passengers who will wish to travel through the Chicago area and who will not be accommodated at either of the existing airports in the region. The tri-state committee has voted to go ahead with a master planning process to select a site for a new major airport in the region.

Clearly, there is a need for a new airport in the Chicago region. O'Hare is dangerously overcrowded and will not be able to meet the demands of the traveling public in the next century. It is essential that the planning process go forward quickly, so that the region will be prepared with a new facility to accommodate the passengers who will want to travel in the coming years.

Federal dollars are needed to continue the planning process for a new airport in the Chicago region. The FAA itself has stated that new airports are needed in the nation, and that the Chicago area, in particular, needs more capacity. The Trust Fund should be used to help develop a new airport to meet the demand for air travel in the 21st century.

B. The Need to Build Airports with Environmental Safeguards

A new airport in the Chicago region must be built with proper environmental safeguards. We must ensure that no new airport ever creates the environmental problems which O'Hare Airport creates today.

In order to do that, we must look for a site now, a site far enough from dense residential development to protect the surrounding population yet close enough to our region to be economically viable. Several such sites have already been identified in the Chicago region.

Once a site is selected, enough land must be purchased to protect the travellers and the communities around the airport. Additional land should be purchased around the airport site which can be zoned commercial or industrial in order to prevent residential development near the airport.

Finally, the airport operator must permit the surrounding communities to share in the control over the new airport. Only when there is cooperation between the airport operator and the surrounding residents can an airport be run in a manner which benefits the operator, the travelling public, the surrounding area and the airlines using the facility.

Federal assistance is essential to ensure that new airports are built with environmental safeguards. The past 25 years have shown us that major airports do not belong in dense residential areas. In order to prevent similar mistakes in the future, Trust Fund dollars should be spent to develop facilities that are large enough to accommodate demand and far enough from dense residential areas to protect communities.

IV. The Need to Improve Aircraft Safety

Aircraft safety is a serious concern in our communities. Over the past few years, the number of near-misses by aircraft near O'Hare has skyrocketed. Should a tragedy occur in the skies near O'Hare, disaster will strike in one of our communities.

Obviously, O'Hare needs more qualified air traffic controllers. But more controllers alone will not solve our problems. The skies over O'Hare are overcrowded. There are too many planes and not enough places to put them. O'Hare sits on relatively small site surrounded on every side by residential development. There is no body of water, no open space and no room for error in the O'Hare area. Should an accident occur on the ground, nearby residents may be placed in serious danger.

The long-term solution to the O'Hare safety problem is clear. We must have a new airport in an area with enough room to protect the surrounding community. We must have a new airport so that the City will not continue to stuff more and more traffic into O'Hare -- endangering surrounding residents and the traveling public. And we must have a new airport to alleviate some of the congestion which already exists in the skies over O'Hare.

Trust Fund dollars should be spent to improve safety in all possible ways. In the Chicago region, money spent to plan a new environmentally sound and safe airport will help protect those who travel and those who live around our airports.

V. Conclusion

Billions of dollars are sitting unspent in the Airport and Airway Trust Fund while billions of dollars of work on our air transport needs to be done. There is not an excess of money in the Trust Fund, rather, there is an unwillingness to spend what is there to improve our air transport system and to protect the people who pay unfairly for the system that others enjoy -- namely the people who are adversely impacted by the nation's airports.

In the O'Hare area, we need more Trust Fund dollars for school soundproofing, more for noise abatement projects in general, and more Trust Fund dollars to help develop a new major air carrier airport.

The Suburban O'Hare Commission is pleased to have been given the opportunity to present its views to the Subcommittee. Should further hearings be held on the Trust Fund, noise abatement and related issues, we would welcome the opportunity to present oral testimony to the Subcommittee.

WRITTEN COMMENTS OF WILLIAM E. LOBECK, JR.
PRESIDENT, THRIFTY RENT-A-CAR SYSTEM, INC.
Submitted to the Subcommittee on Oversight
of the Committee on Ways and Means

U.S. House of Representatives

August 26, 1988

These written comments are submitted on behalf of the Thrifty Rent-A-Car System and its more than 100 licensees in the United States. Although Thrifty ranks seventh among car rental companies in fleet size, it is the largest car rental company serving the public through a network of licensees. These licensees are independent small business people who operate more than 300 Thrifty car rental locations in 47 states and several territories.

With less than one percent of Thrifty's outlets located on airport premises, why is Thrifty concerned about Federal airport financing? Because many of Thrifty's off-airport licensees are being forced into non-consensual business partnerships with airports. By imposing gross receipts taxes, many airports take a significant cut of an off-airport car rental company's gross receipts, and, as any business partner would, these airports claim the right to inspect and audit the company's books and records.

For the reasons discussed below, we believe that off-airport access fees based on gross receipts are unfair and discriminatory. These fees are anti-competitive and unfair not only to the independent business people who pay them, but also to the customers whom these business people serve. Moreover, and probably of most interest to this Committee, the imposition of these unfair and discriminatory fees deny revenue to the U.S. Treasury. Because consumers and taxpayers should not be forced to continue subsidizing airport authorities that impose these fees, we recommend that these airports be denied the benefits of tax-exempt financing.

The Airport Car Rental Market

Historically, car rental companies reached the airport market by entering into concession agreements with airports. In return for payment of a concession fee (usually ten percent of gross receipts) and a nominal rent, the on-airport car company receives in-terminal counter space, car parking and storage space, and in-terminal advertising. Because airport space is limited, companies seeking to operate on-airport usually bid for the concession agreements by offering minimum payments to be applied to the gross receipts fee. However, our experience has shown that a company must have a 10% local market share in order to meet the minimum in most cities, and in at least one case, the Dallas/Fort Worth market, the required minimum payment would be 18% to 20% of the anticipated gross.

In 1976, the Federal Trade Commission entered into a consent order with the three largest car rental companies -- Hertz, Avis, and National -- finding that these companies maintained a concentrated and non-competitive market structure and that they engaged in anti-competitive actions that prevented smaller competitors from penetrating the on-airport auto rental market. According to the FTC, these

three car rental companies -- Hertz, Avis, and National -- controlled 96% of the on-airport car rental business.[1/].

Although the four largest companies (Hertz, Avis, National, and Budget) still control over 90% of the on-airport business,[2/] the airport car rental industry has witnessed a fundamental change since 1976 -- the growth of the off-airport car rental industry. Thrifty and other car rental companies have recognized and cultivated the value-minded car rental customer. By transporting the customer by shuttle bus to an off-airport location, Thrifty and other off-airport companies have kept costs to a minimum, and have passed the savings on to the customer. Moreover, deregulation of the aviation passenger industry has increased the number of value-minded customers -- tourists and middle-income individuals and families who are more willing to tolerate the greater inconvenience of renting off-airport than the businessmen who typically rent their cars on-airport.

The Growth of Gross Receipts Airport Access Fees

In October of 1987, only six airports charged gross receipts fees to off-airport car rental companies[3/]. Currently 19 airports have imposed these fees and another 24 airports are actively considering their imposition. Everyone expects the number of airports imposing such fees to go much higher. Using an assumed gross receipts rate of 8%, the Consumer Federation of America estimates that the annual amount of such fees would be well over $100 million and could be as high as $200 million.[4/]

Off-airport access fees are inherently unfair and discriminatory. The company operating off-airport pays the same, or nearly the same, fee as its on-airport competitor, yet is denied the advantage of direct access to the deplaning customer, the use of direct telephone service, the benefits of on-premises advertising, and the benefit of the perception of the traveling public that renting on-airport is more convenient. The off-airport operator pays the same, or nearly the same, fee as his much larger competitor, yet his customer bears the inconvenience of a shuttle bus ride to a remote pickup and delivery point.[5/] The airline passenger who rents a car for one day pays a lesser amount of tax than the passenger who rents a car for two days, yet their use of the airport is identical, and the arriving passenger who rents a car through his hotel pays no tax at all.

1/ See Federal Trade Commission, In the Matter of Hertz Corporation, et. al., 88 F.T.C. 715, 716 (Oct. 26, 1976)

2/ Consumer Federation of America, Airport Fees for Auto Rental Companies: A Consumer Perspective, June 1988, p.8 [Hereinafter cited as CFA Study].

3/ See "Car Rentals: Airports Take their Cut," Consumer Reports, October 1987

4/ CFA Study at p. 9.

5/ Even where required to ride a shuttle bus, on-airport customers receive the convenience of in-terminal rental counters near baggage areas, a shorter shuttle bus ride, and more convenient pick-up and delivery points.

Airport access fees are also unfair and discriminatory when one considers that at virtually all of the airports currently imposing gross receipts fees, small planes are allowed to land and park for free. Indeed, many of these airports collect more revenue from fees on auto rental companies than they do from aircraft landing fees.6/ Dr. Mark Cooper, Director of Research for the Consumer Federation of America, sums up the situation best:

> The airports are behaving like Robber Barons, gouging those customers with the least economic and political power, while letting others freeload. You cannot convince us that when the airports charge tourists for the privilege of riding a van to and from the airport, but let small and medium sized jets land and park for free, they are engaging in fair and reasonable pricing.7/

The sudden imposition of gross receipts access fees on off-airport companies cannot be justified by the notion that airports need new sources of revenue. Off-airport companies have always acknowledged the right of airports to charge use-based fees, and are happy to pay them. Indeed, many airports continue to charge such fees, often in the form of shuttle van permit or per-trip fees.

There is much evidence that gross-receipts-based access fees on off-airport operations are designed to alleviate the competitive threat to on-airport companies posed by off-airport businesses. Airports have rarely imposed similar fees against comparable revenue sources such as hotel courtesy vans. As one airport director explained, hotel courtesy vans are not charged because they are not in competition with on-airport rental car companies.8/

Moreover, the Airports have publicly admitted that these fees are in response to pressure from the on-airport companies to do what they can to reduce competition from off-airport rental companies. As the Airport Operators Council International ("AOCI") and the American Association of Airport Executives ("AAAE") have testified: "[i]f airports are prohibited or restricted in charging equitable fees to off-airport companies, the on-airport car rental companies will have every incentive to move off airport property and take with them the substantial revenues on which airports depend. This threat is real."9/

6/ CFA Study at p.19.

7/ Consumer Federation of America, "Consumer Group Urges Congress to Declare a Moratorium on Airport Gross Receipts Fees for Off-Premise Business," Press Release, June 18, 1988.

8/ Testimony of Albert McDill, Sarasota Airport Director, in Alamo Rent A-Car, Inc. v. Sarasota-Manatee Airport Authority, No. 82-836 civ-T-10 (M.D. Fla.) (April 8, 1985) pp. 74-75; Deposition of Albert McDill, (Sept. 1, 1982), at p. 52.

9/ Joint Testimony of the AOCI and the AAAE, Hearings on Fees Charged to Businesses Doing Business Not Located

Footnote Cont'd

The airport negotiators who met with Alamo Rent-A-Car under the auspices of a Senate Aviation Subcommittee task force bluntly stated that "a gross receipts fee is a 'protective fee' which would protect airports from the possible departure from the airport of their present on-airport concessionaires."10/.

An example of the pressure applied to airports is provided by the text of a May 23, 1988, speech by Frank A. Olson, President of Hertz Corporation to the AAAE. In that speech, Mr. Olson recalled the early days when "car rental companies on airport -- and there were only three of us then -- had exclusive access to the deplaning customer .... The public recognized the convenience as an acceptable offset to the marginally higher price. All was well." Mr. Olson went on to emphasize all the the specific ways that off-airport companies have gained ground in competing with Hertz and the other on-airport companies. Addressing the airports, he stated, "you're in danger of killing the goose that laid the golden egg. It's bad for us and it's bad for you." Finally, Mr. Olson delivered his ultimatum: "Either you, the airports, need to make off-airport operators shoulder their fair share of the costs, or you need to limit their access to the customers for whom we pay you such a high price."

In other words, Mr. Olson is complaining that competition from off-airport companies is making it difficult for on-airport companies to indiscriminately increase their prices. In order to eliminate the problem, Mr. Olson suggests that the airport authorities should force price increases by imposing substantial additional costs on off-airport companies or that the airport authorities should erect other artificial barriers to restrict the ability of off-airport companies to compete for the business of deplaning customers. The goals and methods suggested by the President of the Hertz Corporation are clearly anticompetitive in purpose and effect. We at Thrifty believe that the the Congress should not permit the airports to be a party to such anti-competitive tactics.

A Proposal

Any consideration of the subject of airport financing must necessarily include an examination of airport pricing and the unfairness of gross receipts access fees. We recommend that the Ways and Means Committee also consider the effect of these fees on the U.S. Treasury.

With an estimated pre-tax income of $228 million, at a corporate tax rate of 34%, the off-airport car rental industry pays an estimated $77 million annually in Federal income taxes. If, as the Consumer Federation of America estimates,11/ only half of the annual off-airport receipts are subject to an 8% tax, the windfall to the airports would be $100 million annually, and could be as high as $200

2/ Footnote Cont'd

at the Airports before the Subcommittee on Aviation of the Senate Committee on Commerce, Science and Transportation, 100th Cong., 1st Sess. (Sept. 17, 1987) (emphasis in original) [hereinafter cited as Senate Hearings].

10/ Testimony of Philip S. Shailer, Vice President, Alamo Rent-A-Car, Senate Hearings at p.24

11/ CFA Study at p.9.

million. As the pre-tax profits of the industry decrease to zero, the Federal Government will lose most of the current $77 million in estimated Federal income taxes that the industry pays annually.

If we assume that the off-airport industry will pay gross receipts fees of $150 million annually, the cumulative Federal income tax deduction alone would be worth $51 million (34% of $150 million). Yet, because airports pay no Federal income taxes, the $51 million charge on the Treasury has no accompanying income item -- it is simply lost to the Treasury.

Although these taxpayer savings provide a compelling reason for this Committee to examine gross receipts fees, there is an even more compelling reason: airports that gouge consumers, engage in anti-competitive activity, and finance themselves with unfair and discriminatory fees should not be allowed the benefits of tax-exempt financing. It is simply too much to expect the U.S. taxpayer to fund a system that restricts competition, raises consumer prices, and benefits the largest and wealthiest segment of the car rental industry.

We at Thrifty recommend that the Congress amend subsection 142(b) of the Internal Revenue Code to deny tax-exempt status to airport development bonds issued by airport authorities that impose unreasonable and unjustly discriminatory fees and conditions on the non-tenant use of such airports.

The use of tax-exempt bonds to develop facilities should be a privilege that Congress confers only upon facilities that are to be operated for the public benefit and in the public interest. When such facilities are not operated in the public interest -- and it is clear that airports imposing gross receipts access fees are not -- then the privilege should be withdrawn by Congress. A simple amendment to subsection 142(b) will not only accomplish this worthy goal, but will raise much needed tax revenue as well.

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Ways and Means
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American Society of Travel Agents
Association of Retail Travel Agents
Conference of National Park Concessioners
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Hotel Sales and Marketing Association International
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International Association of Convention & Visitor Bureaus
National Air Carrier Association
National Campground Owners Association
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National Council of State Travel Directors
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An Affiliate of
Travel Industry Association of America

September 1, 1988

The Honorable J. J. Pickle
Chairman
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
1105 LHOB
Washington, D.C. 20515

Dear Chairman Pickle:

Pursuant to the Subcommittee's August 11 hearings, the Travel and Tourism Government Affairs Council appreciates this opportunity to submit comments for the hearing record on the operation and future status of the Airport and Airway Trust Fund.

The travel and tourism industry is currently the third largest retail industry in America and the nation's second largest private employer. The members of the Travel and Tourism Government Affairs Council represent all segments of the industry including transportation accommodations, food services, travel agents, tour sales, attractions and recreation. Although each of these components have their own unique and specific interests and concerns, virtually nothing more broadly impacts the industry and all of its diverse elements as the safety and efficiency of the nation's transportation infrastructure.

We are therefore concerned, as we have been for some time, that while travelers continue to finance aviation system development and improvement, the accumulated funds have not been utilized for that purpose. Clearly, fundamental changes must be made--particularly in view of the fact that the number of passengers has doubled in the last ten years, and is expected to nearly double again by the turn of the century.

While Congress must be credited for taking steps to impede the flow of consumer dollars into what has become overwhelmingly and insidiously more "fund" than "trust," the tax trigger cannot be The

characterized as a long term solution to this problem. If appropriations for trust fund programs are not increased, the trigger mechanism will go into effect in 1990. Essential airport programs will consequently remain unfunded, the economy will suffer and air passengers will be condemned to endless delays for an indefinite period of time. Moreover, we cannot expect to improve safety and rectify system deficiencies until we devote sufficient resources to achieving those objectives. Quite simply, this problem will not go away--either before or after the trigger is due to be pulled--without positive and primary action. Further delay will only exacerbate the situation.

We therefore urge you and your subcommittee colleagues to support a fully funded FAA, comensurate with the current and future demands of the traveling. That public has already paid the cost of a greatly improved air transportation system that has not been delivered. We further urge you to give positive consideration to the specific recommendations of the Air Transport Association, a member of the Council, and one with substantial technical expertise in these matters.

Thank you in advance for considering the views of the travel industry. Should you or your staff need any additional information, please do not hesitate to contact us.

Sincerely,

Aubrey C. King
Executive Director